

# Hawaii's Economic Future

**Kauai Economic Development Board**  
**December 15, 2011**



Presented by Richard Lim, Director

Hawaii State Department of Business, Economic Development & Tourism

<http://hawaii.gov/dbedt>

# Overview

- ▶ State of the Economy
- ▶ Long-Term Headwinds
- ▶ A New Day in Hawaii Plan
- ▶ Implications

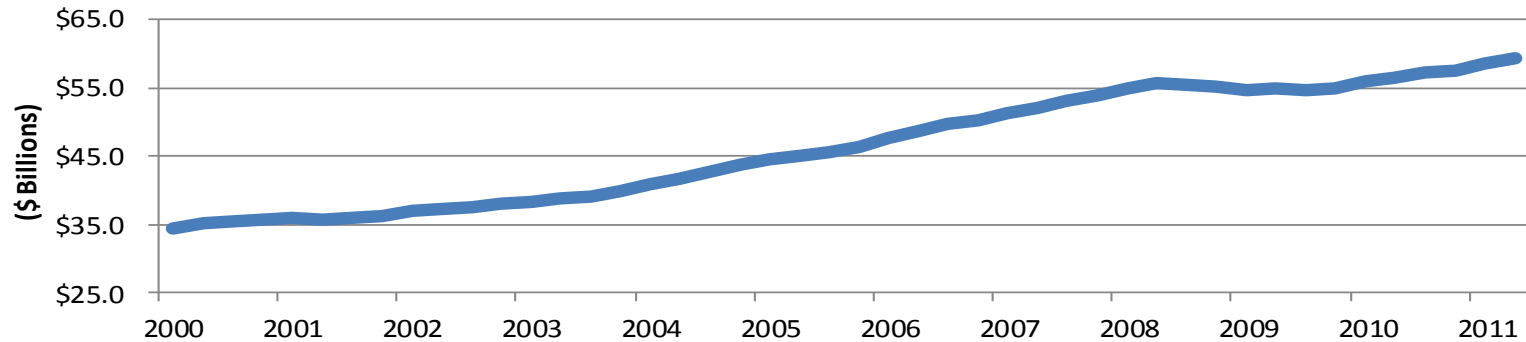
# State of the Economy

» Update on Hawaii's economic conditions

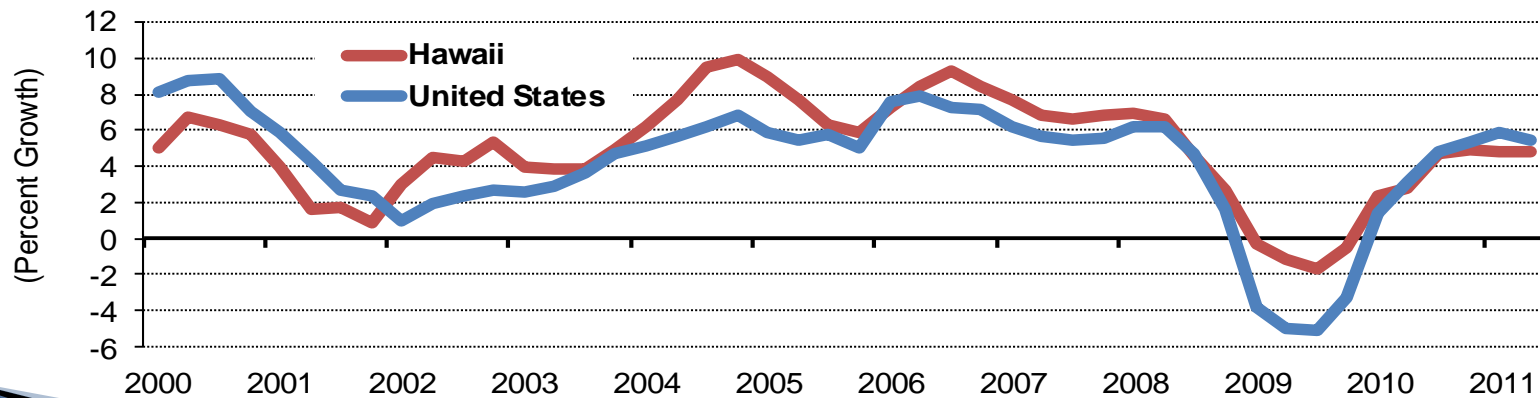
# Personal Income

*Personal income growth increased in 2010 after a slight dip in 2009*

Hawaii Quarterly Personal Income: 2000 Q1 to 2011 Q2



Quarterly Personal Income Growth: 2000 Q1 to 2011 Q2

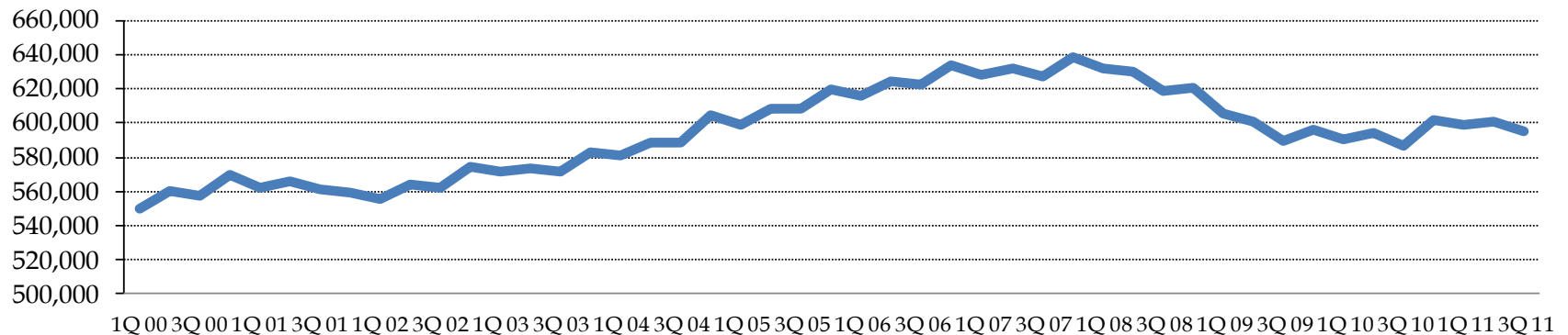


Source: U.S. Department of Commerce, Bureau of Economic Analysis

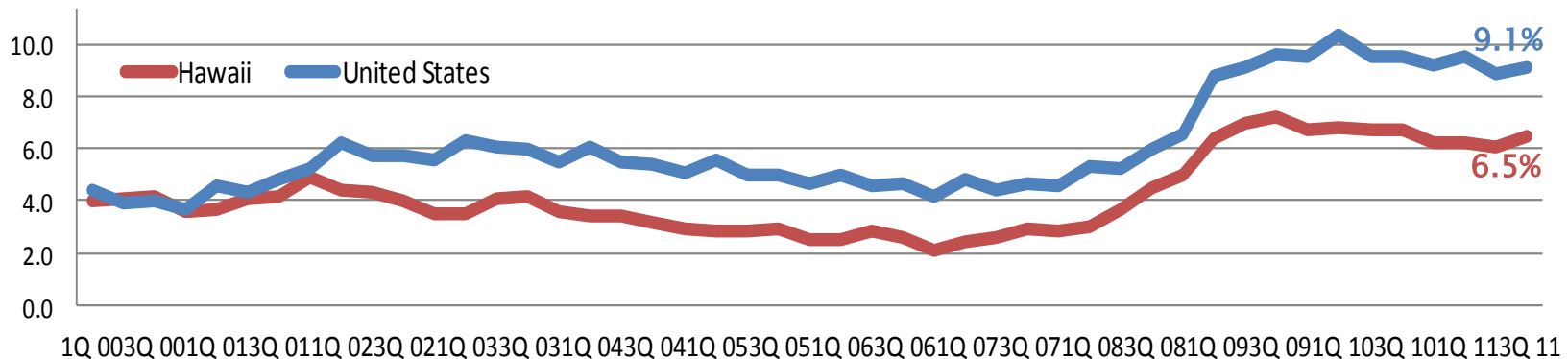
# Job Count / Unemployment Rates

*During the first 9 Months of 2011, job count increased 1.3% and the unemployment rate averaged 6.3%, which is ranked the 9th lowest in the nation*

Wage and Salary Jobs – 1Q 2000 to 3Q 2011



Unemployment Rates – 1Q 2000 to 3Q 2011

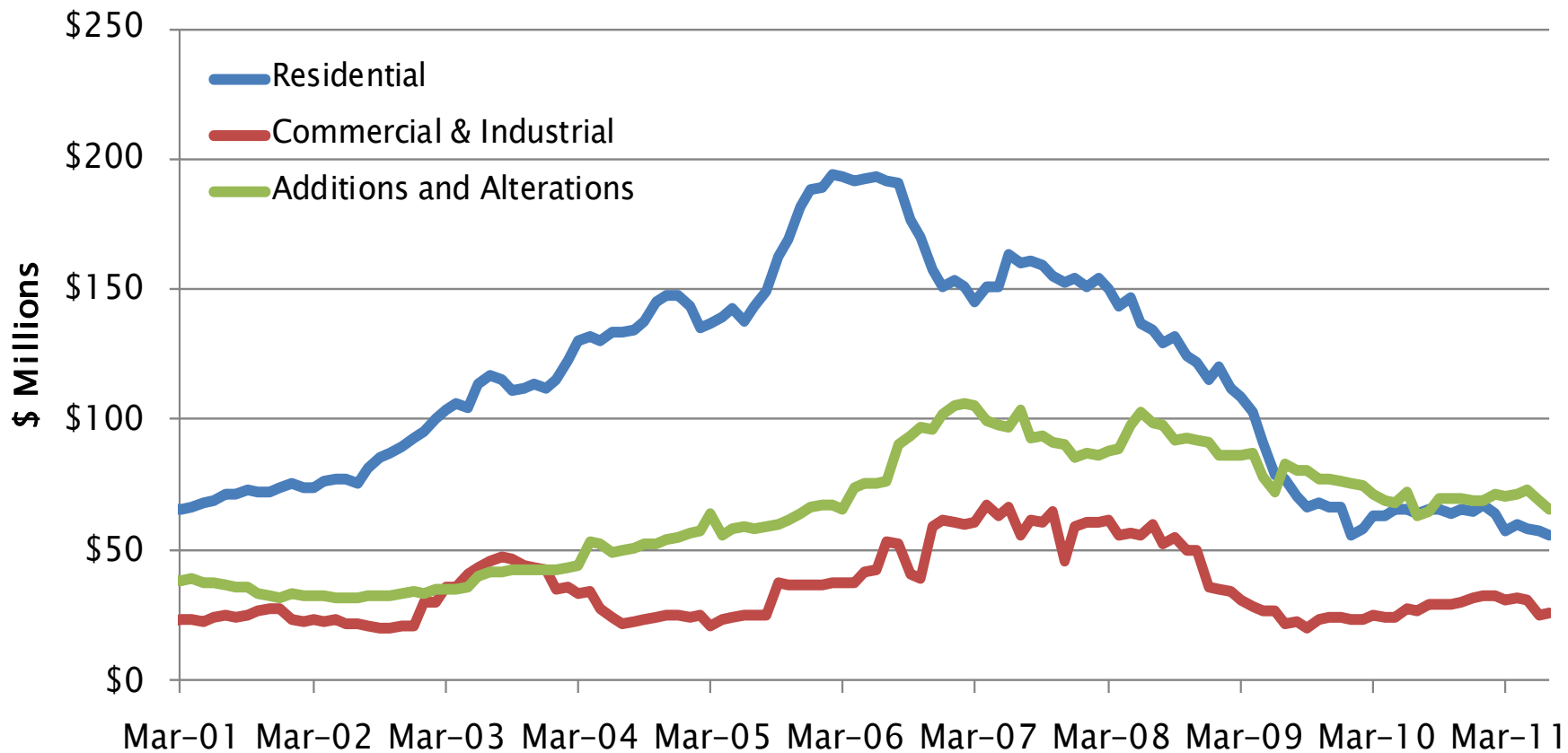


Source: Hawaii Department of Labor & Industrial Relations and U.S. Bureau of Labor Statistics

# Private Construction Activity

*Private Construction Activity Has Been Flat since the beginning of 2010*

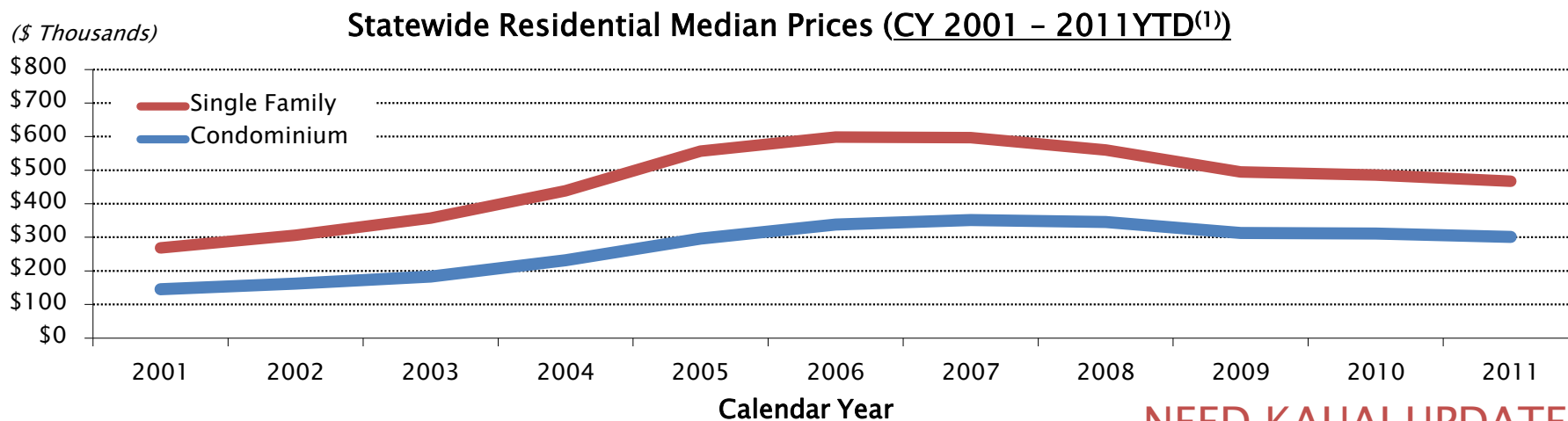
12-Month Moving Average of Building Authorization Components\*



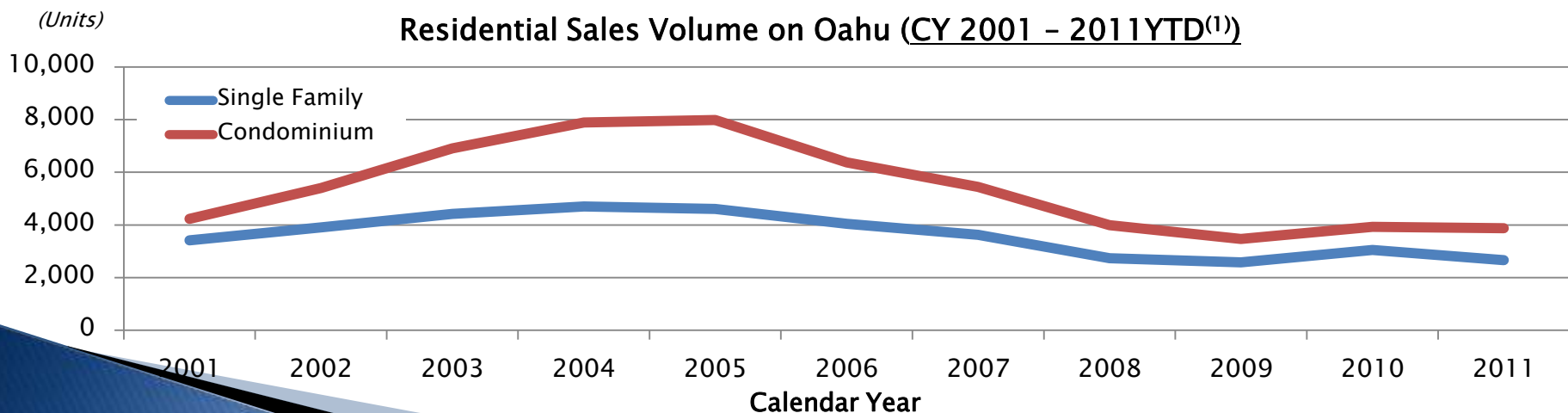
\*Additions and Alterations and Commercial & Industrial data do not include Kauai. All data through July 2011.  
Source: County building departments

# Housing Market

*Hawaii's residential real estate market has stabilized*



NEED KAUAI UPDATE



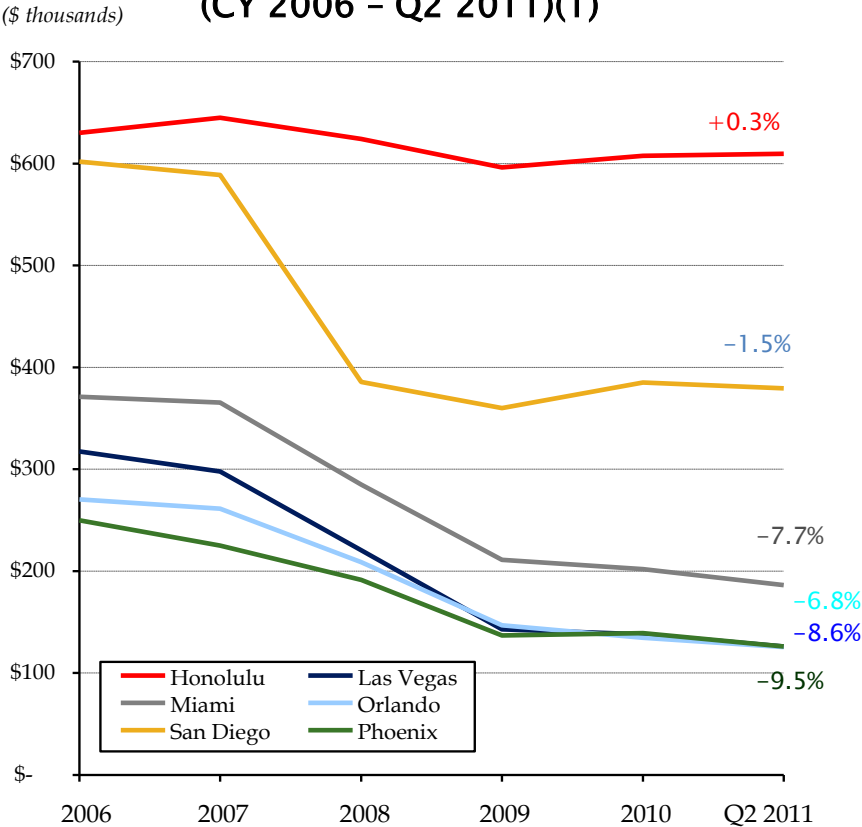
Source: Prudential Locations LLC.

(1) Through September 2011, sales volume figure adjusted to reflect a full year.

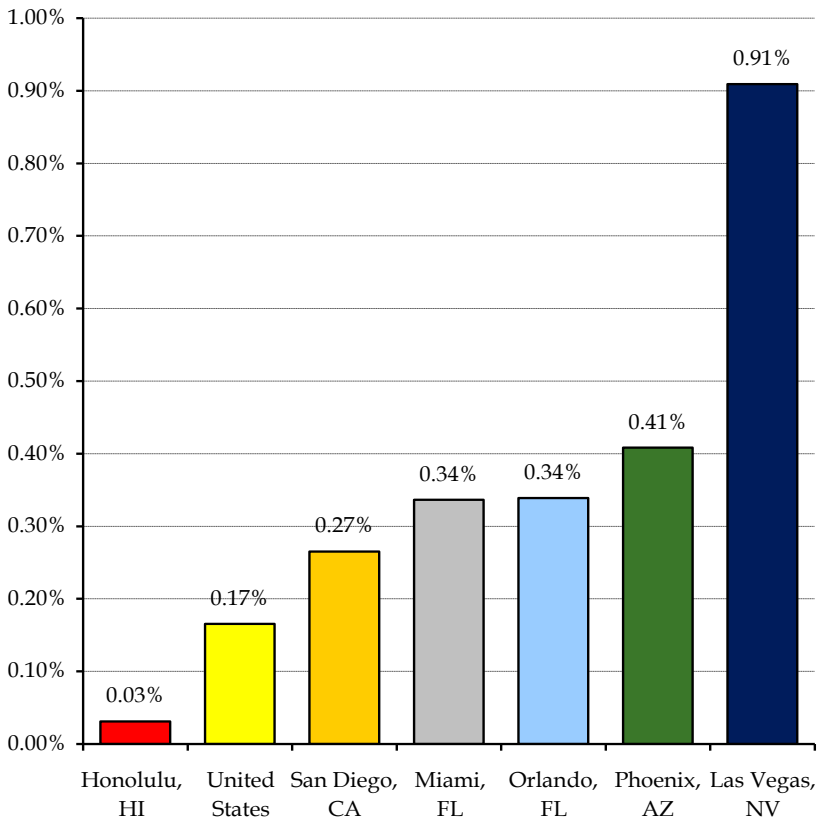
# Housing Trends

*Honolulu's home prices have proven resilient compared to other major markets and its foreclosure rates are among the lowest in the nation*

**Median Single Family Home Prices  
(CY 2006 - Q2 2011)(1)**



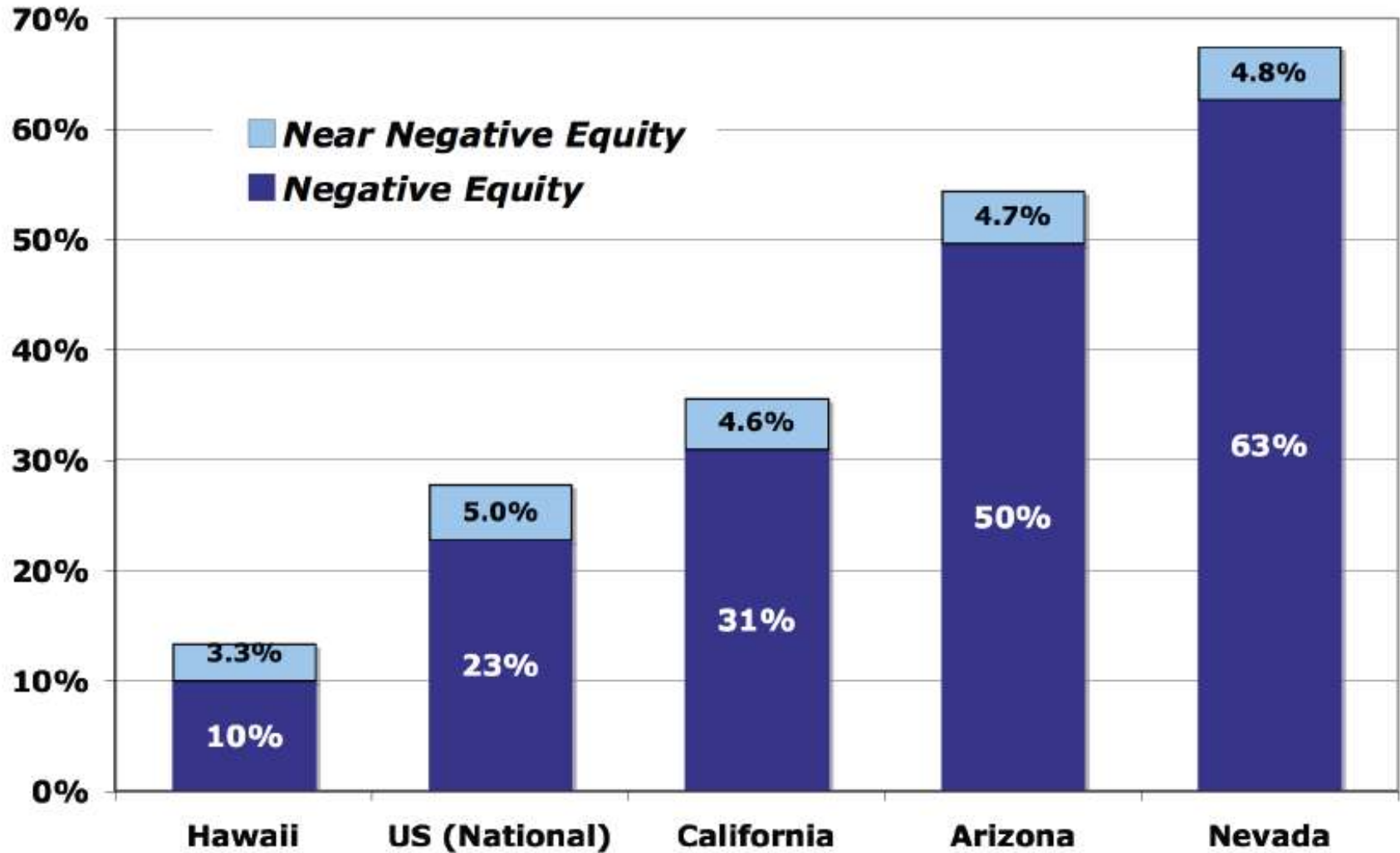
**Comparative Foreclosure Rates  
(As of September 2011)(2)**



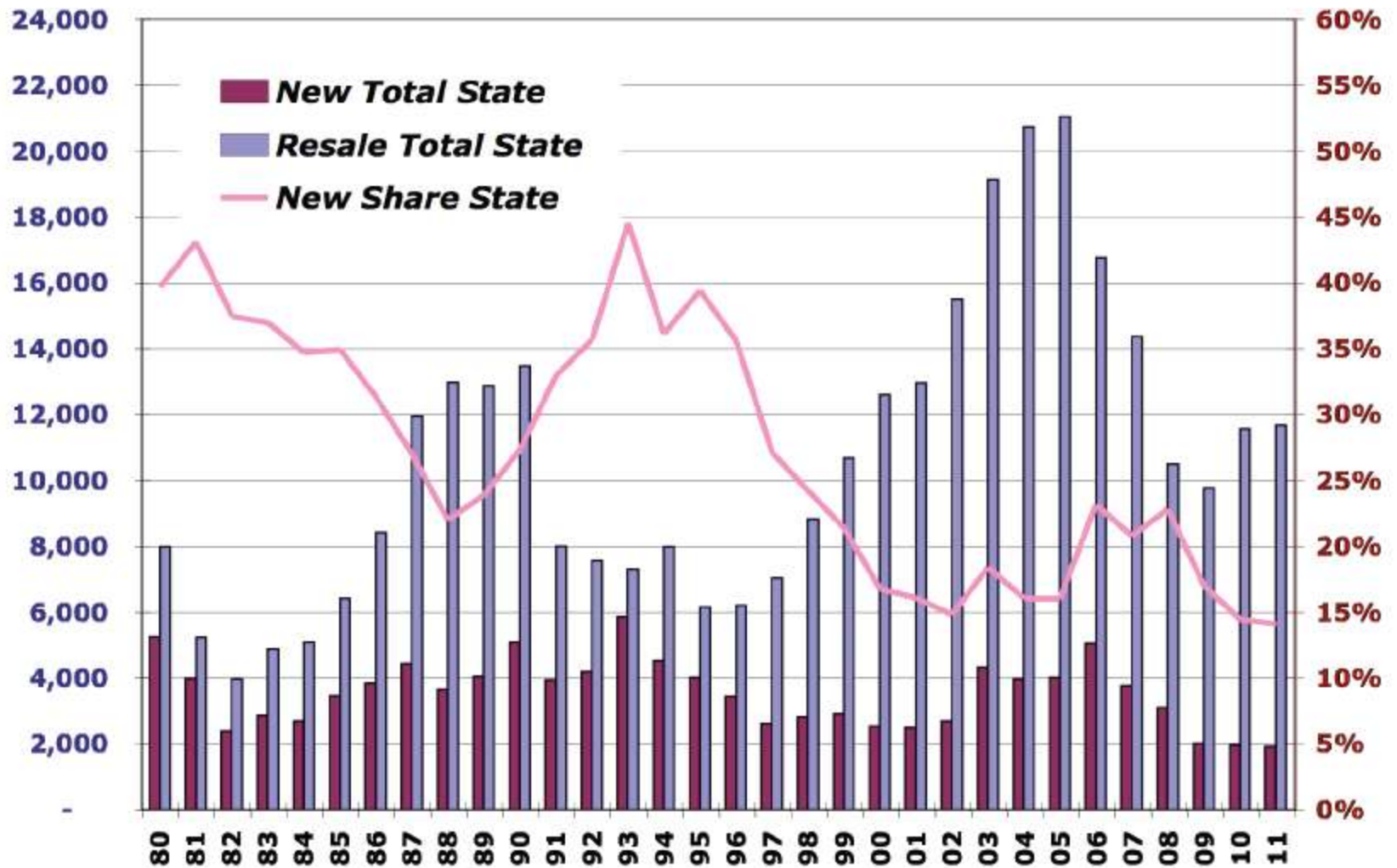
Percentage change indicates Q2 2011 versus same period in calendar year 2010.



# Negative Household Equity

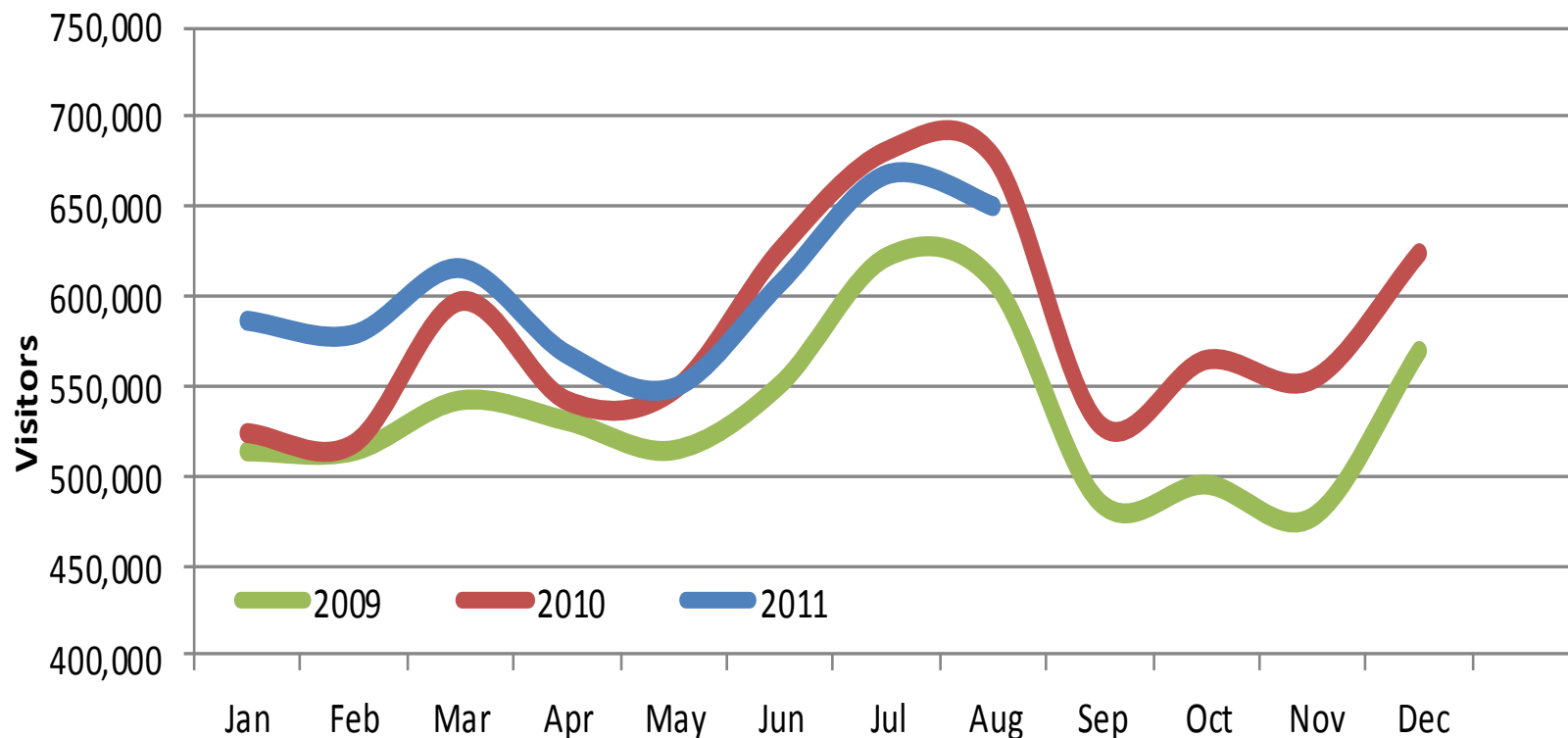


# Developer Share of Market



# Visitor Activity

*Visitor arrivals continued rebound during first 8 months of 2011.*



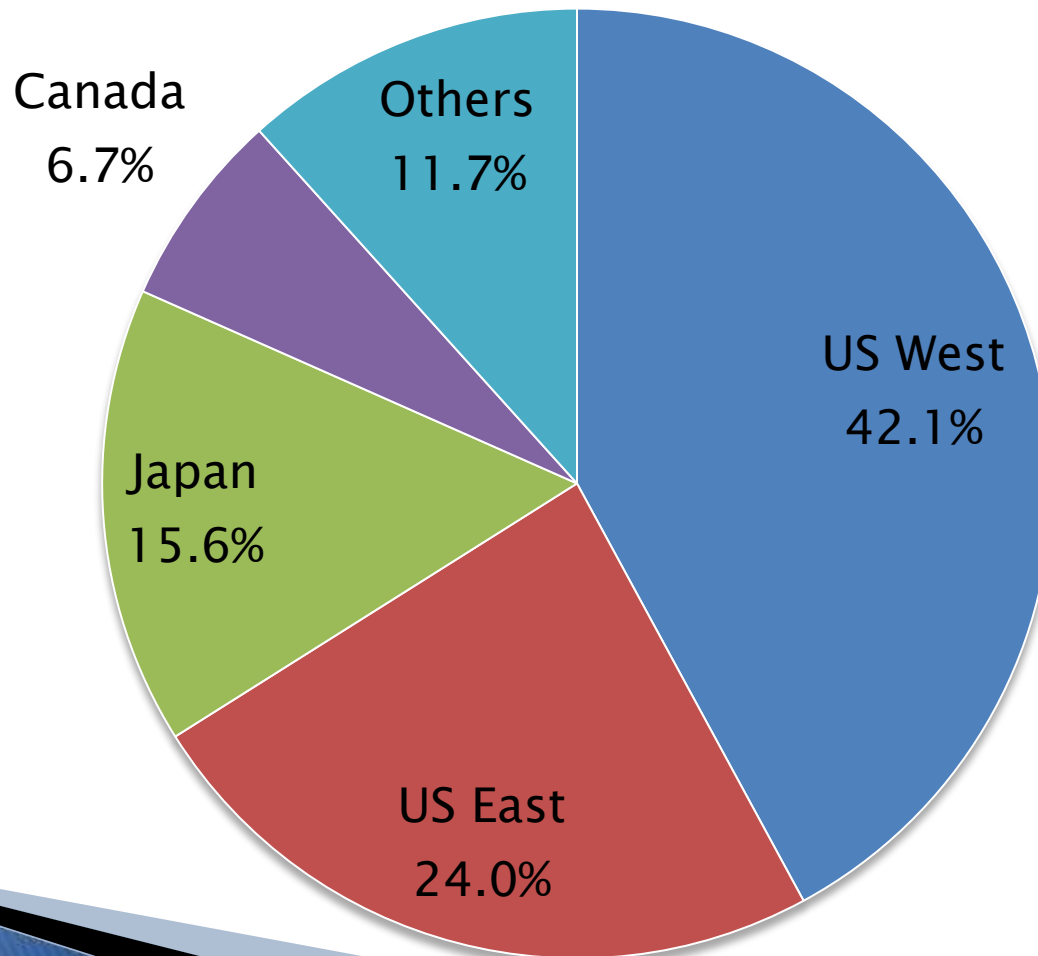
During first 8 months of 2011, visitor arrivals by air increased 2.3% and visitor spending jumped 14.1% from the same period in 2010

*Source: Hawai'i State Department of Business, Economic Development and Tourism, and Hawaii Tourism Authority.*

# Total Visitor Arrivals By Major Market

## First 8 Months of 2011

*66.1% of Hawaii Visitors Were From the U.S., Japanese Visitors Accounted for 15.6%.*



# International Visitor Spending

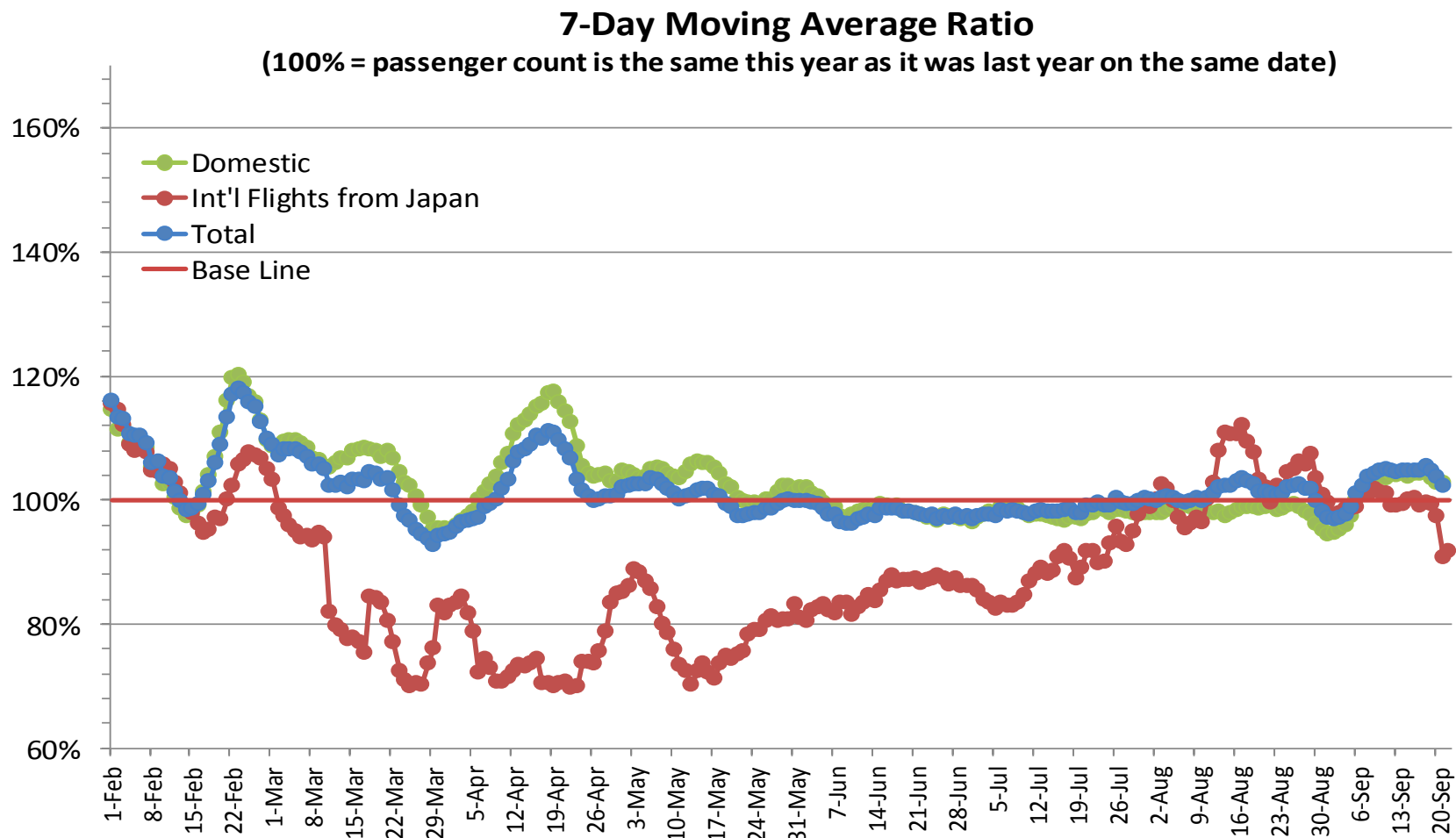
## First 8 Months of 2011

*International Visitors Accounted For 39.4% of Total Visitor Spending*

Market	Arrivals	Length of Stay (Days)	Daily Spending (\$)	Total Expenditure (\$M)
U.S. West	2,029,168	9.56	145.3	2,818.1
U.S. East	1,155,714	10.50	179.4	2,177.5
Japan	751,255	6.07	278.7	1,271.6
Canada	322,885	12.57	153.4	622.3
Other	479,005	10.56	226.8	1,347.8

# Passenger Counts

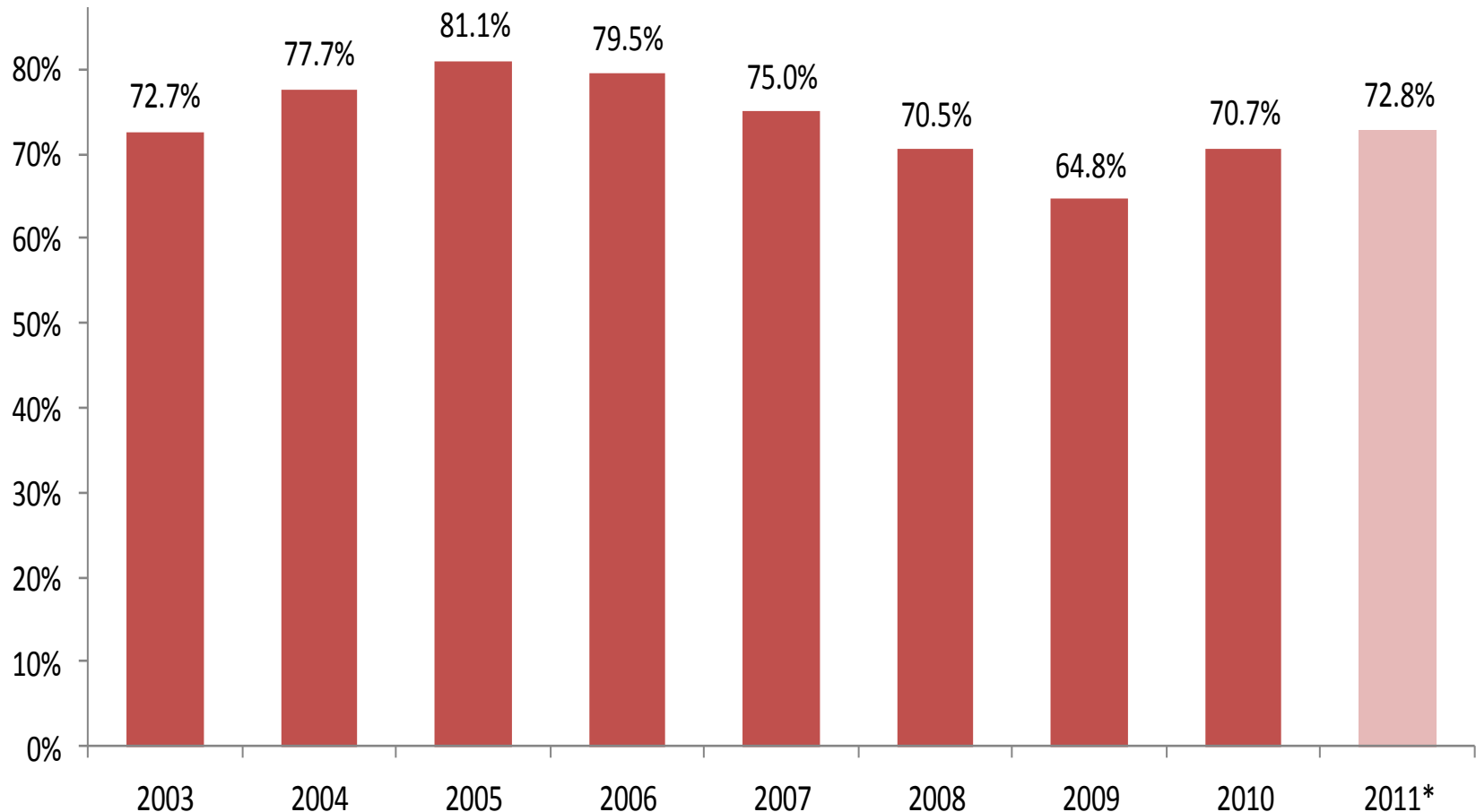
*Japanese passenger counts have been recovering since August.*



Note: Includes all direct out-of-state flights to the islands, excludes inter-island flights.

# Occupancy Rate

*Hotel occupancy rate has been recovering through the first 6 Months of 2011.*



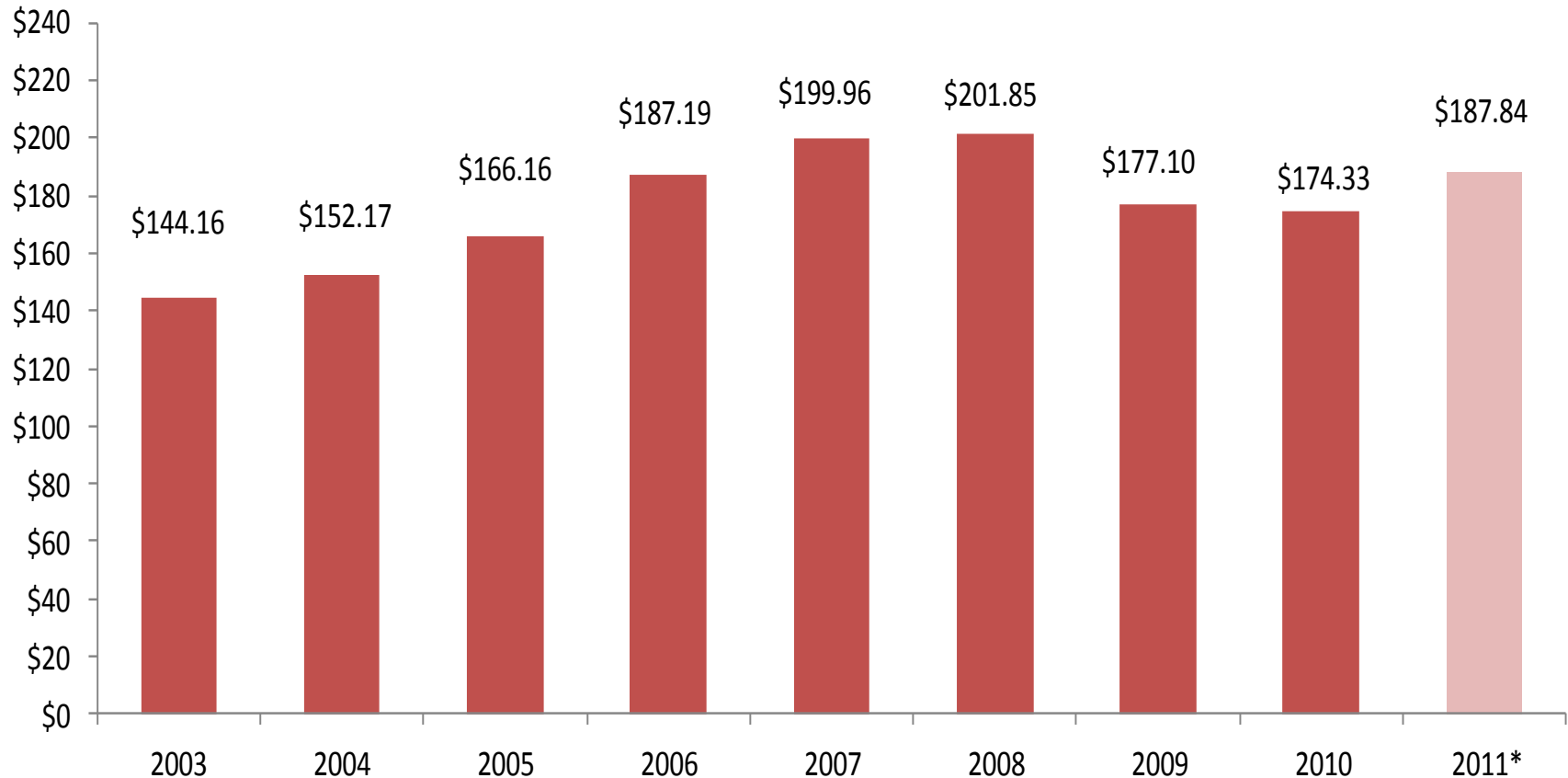
- ▶ Occupancy rate for the first 3 months of 2011 was 77.0%, 6.4 percentage points higher than a year ago.

*\*First 6 months*

Source: Smith Travel Research, Hospitality Advisors LLC

# Average Room Rates

*Average room rate has been recovering during the first 6 months of 2011.*



- ▶ Average hotel room rate during first 6 months of 2011 was \$187.84, \$15.59 higher than the same period in 2010.

*\*First 6 months*

*Source: Smith Travel Research, Hospitality Advisors LLC*



# Average Room Revenue

*Revenue per available room has also been recovering during the first 6 months of 2011.*



- ▶ Revenue per available room increased to \$136.75 during the first 6 months of 2011, \$17.90 higher than the same period last year

*\*First 6 months*

*Source: Smith Travel Research, Hospitality Advisors LLC*

# Current Economic Conditions

▶ Wage and salary job count



▶ Personal income growth



▶ Tourism



▶ Real estate prices and sales



▶ Foreclosure



# Long-Term Headwinds

## »» Long-term challenges facing the State

- Budget
- Demographics
- GET Erosion
- Debt
- National Economy
- Stagnate Anchor Industries

# Budget

► Expenses (million) **\$5,700**

- Medicaid \$800
- ERS/EUTF \$1,220
- Education \$1,800
- Health & Human Services \$700
- Debt service \$560

• Everything else **\$620**

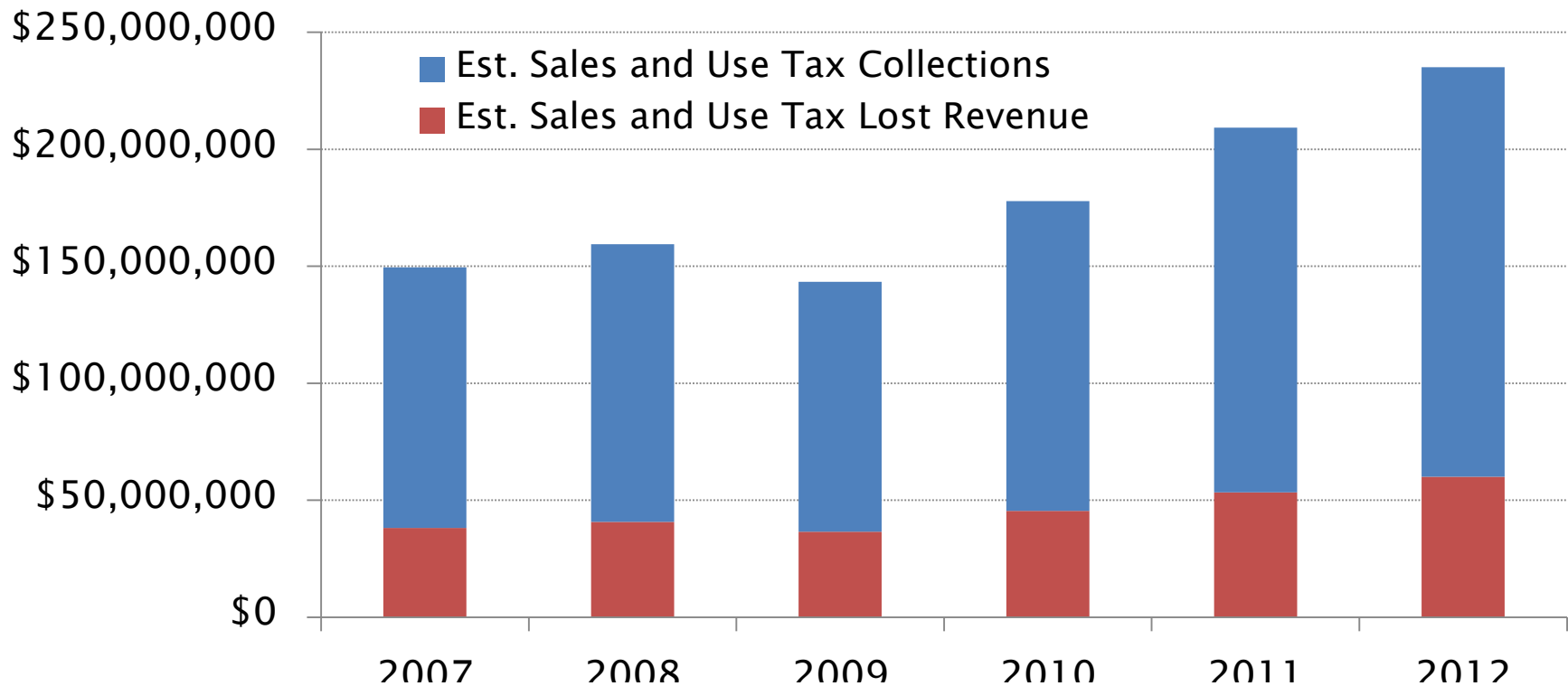
# Challenge of Demographics

- ▶ Employee Retirement System
  - 66,000 active workers and 38,000 retirees
  - 2–1 ratio of workers to retirees
  - 13,000 employees vested
  - 1–1 ratio if vested employees retire
- ▶ Combined unfunded liability of ERS and EUTF  
**>\$21 billion**
- ▶ **Debt: 4<sup>th</sup> highest debt per capita**

# State Tax Distribution

Tax Types	Percent of Total State Taxes	
GET	50%	(\$2.495 billion)
Individual Income	23%	(\$1.176 billion)
Transient Accommodations (TAT)	6%	
County Surcharge	4%	
Unemployment	4%	
Fuel	3%	
Public Service Companies	2%	
Corporations	2%	(\$89 Million)
Liquor	<1%	
Rental Vehicle	<1%	

# Losses In GET & Use Tax Revenue Are Expected Due To Electronic Commerce

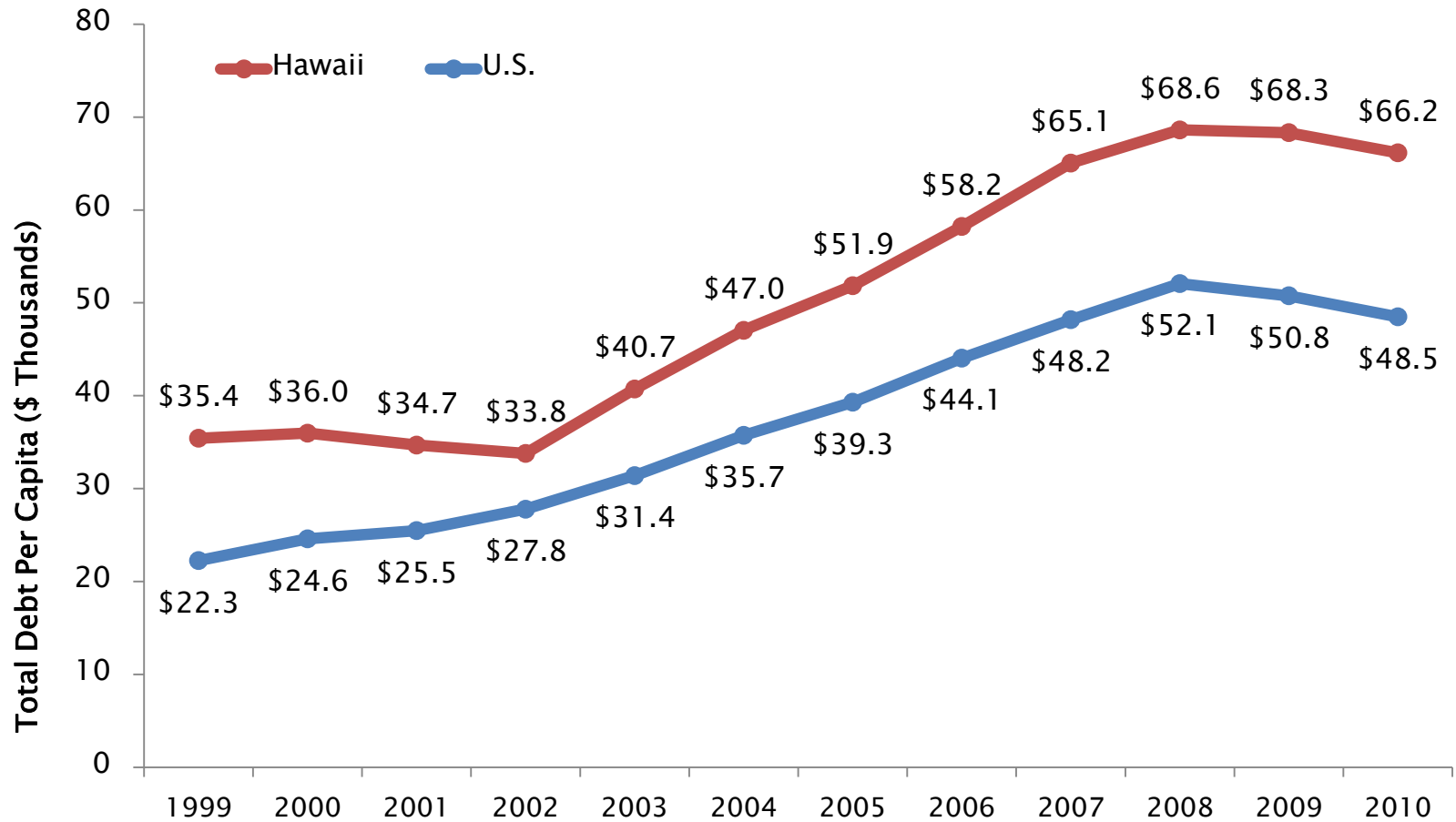


**Annual national state and local sales taxes losses on e-commerce will grow to \$11.4 billion in 2012**

Donald Bruce, "State and Local Government Sales Tax Revenue Losses from Electronic Commerce", The University of Tennessee (April 13, 2009)

# Consumer Debt

*Hawaii's consumer debt per capita ranked 4<sup>th</sup> highest in the nation in 2010*

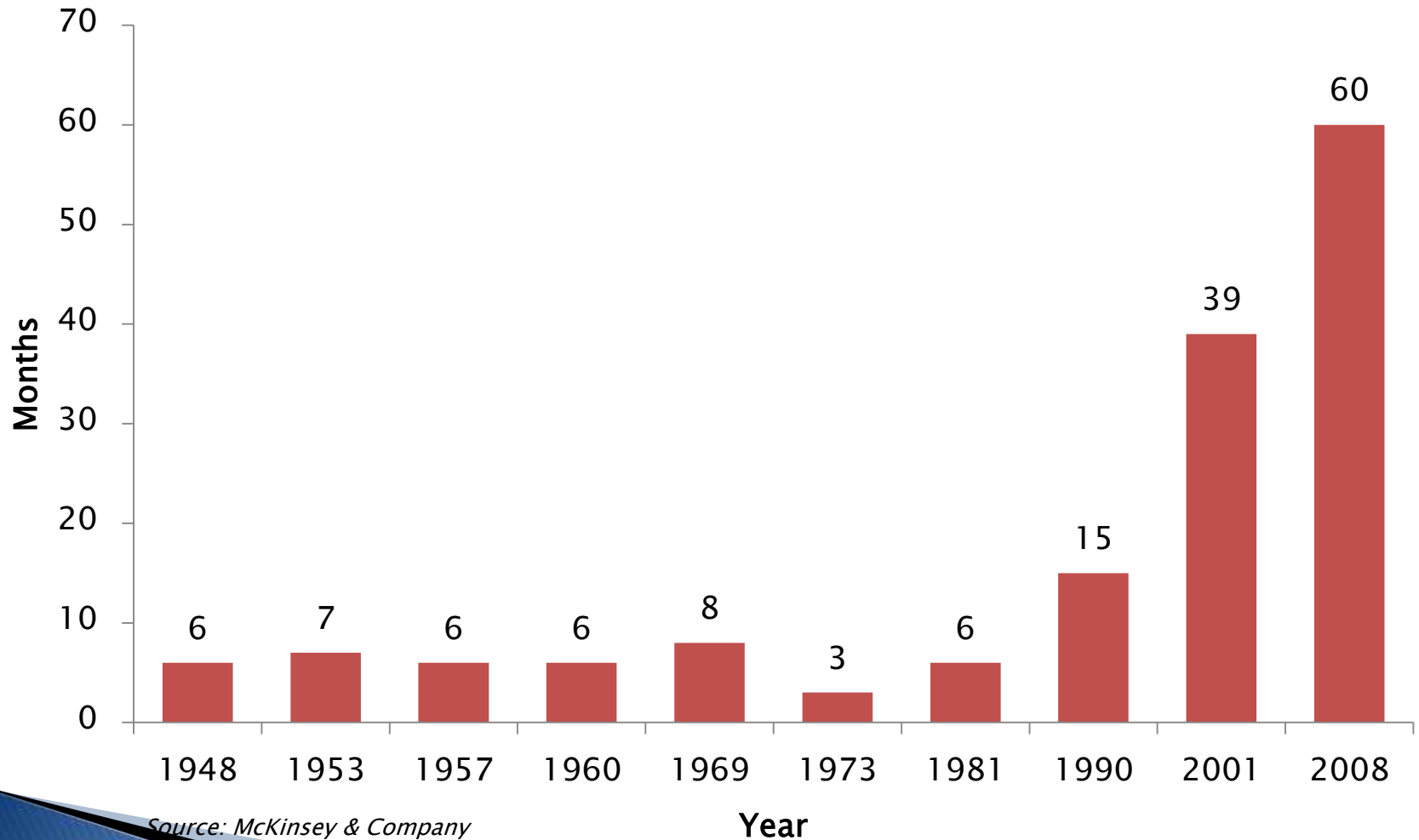


Source: Federal Reserve Bank of New York, Household Credit Conditions



# Job Recovery

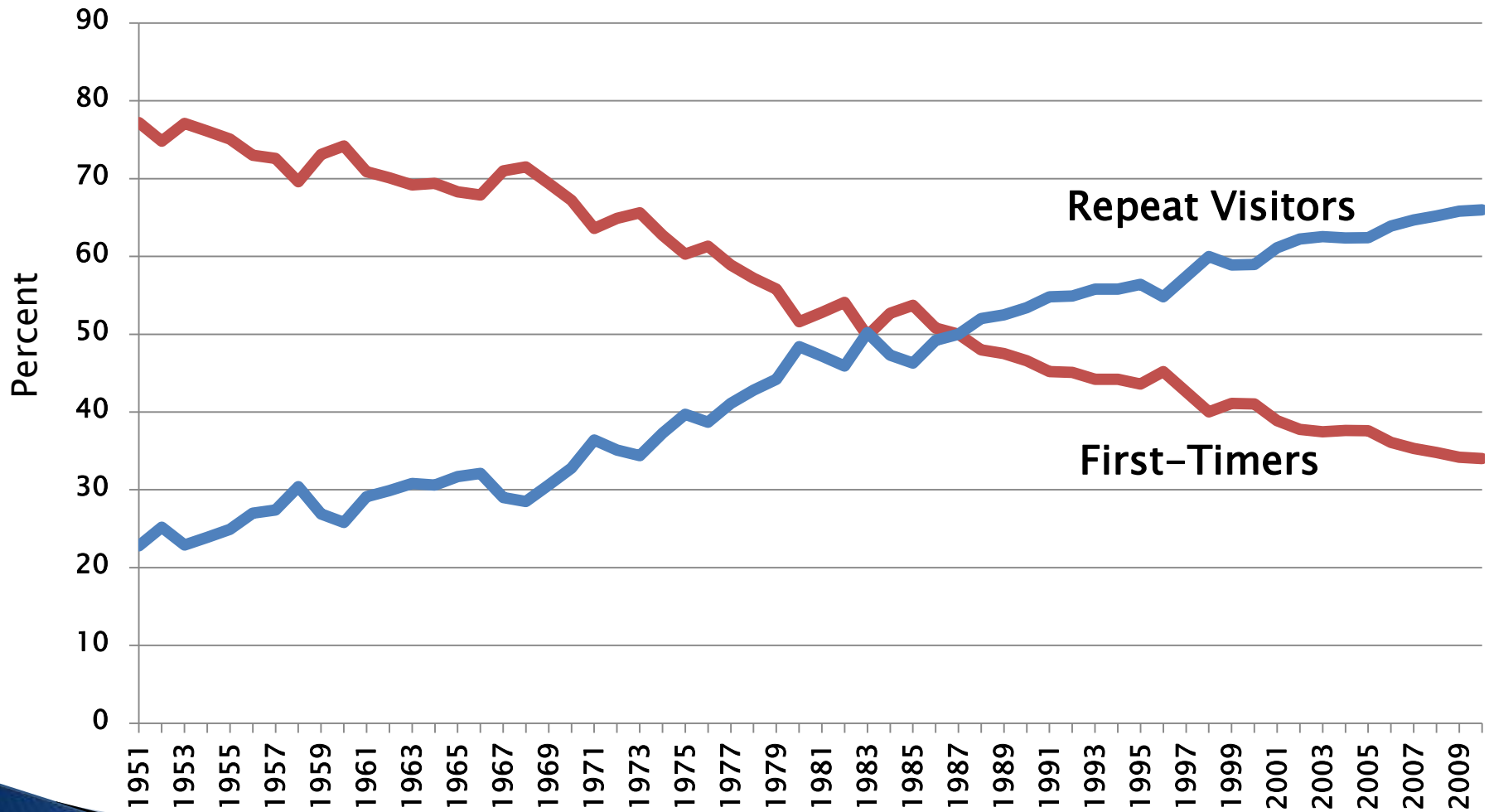
*Average number of months to return to pre-recession levels is lengthening*



Source: McKinsey & Company

# Tourism

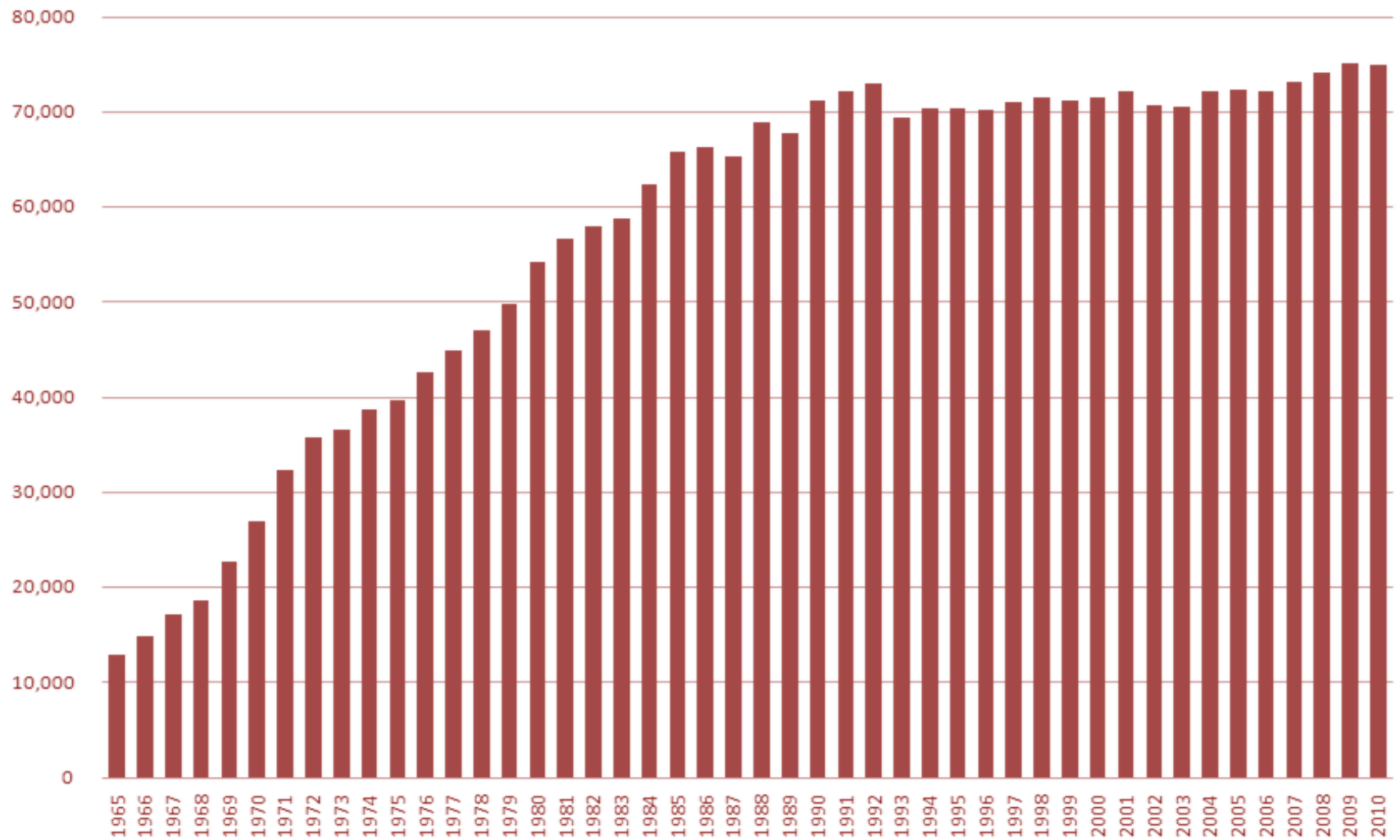
*Fewer new visitors are coming to Hawaii*



*Source: Hawai'i State Department of Business, Economic Development and Tourism*

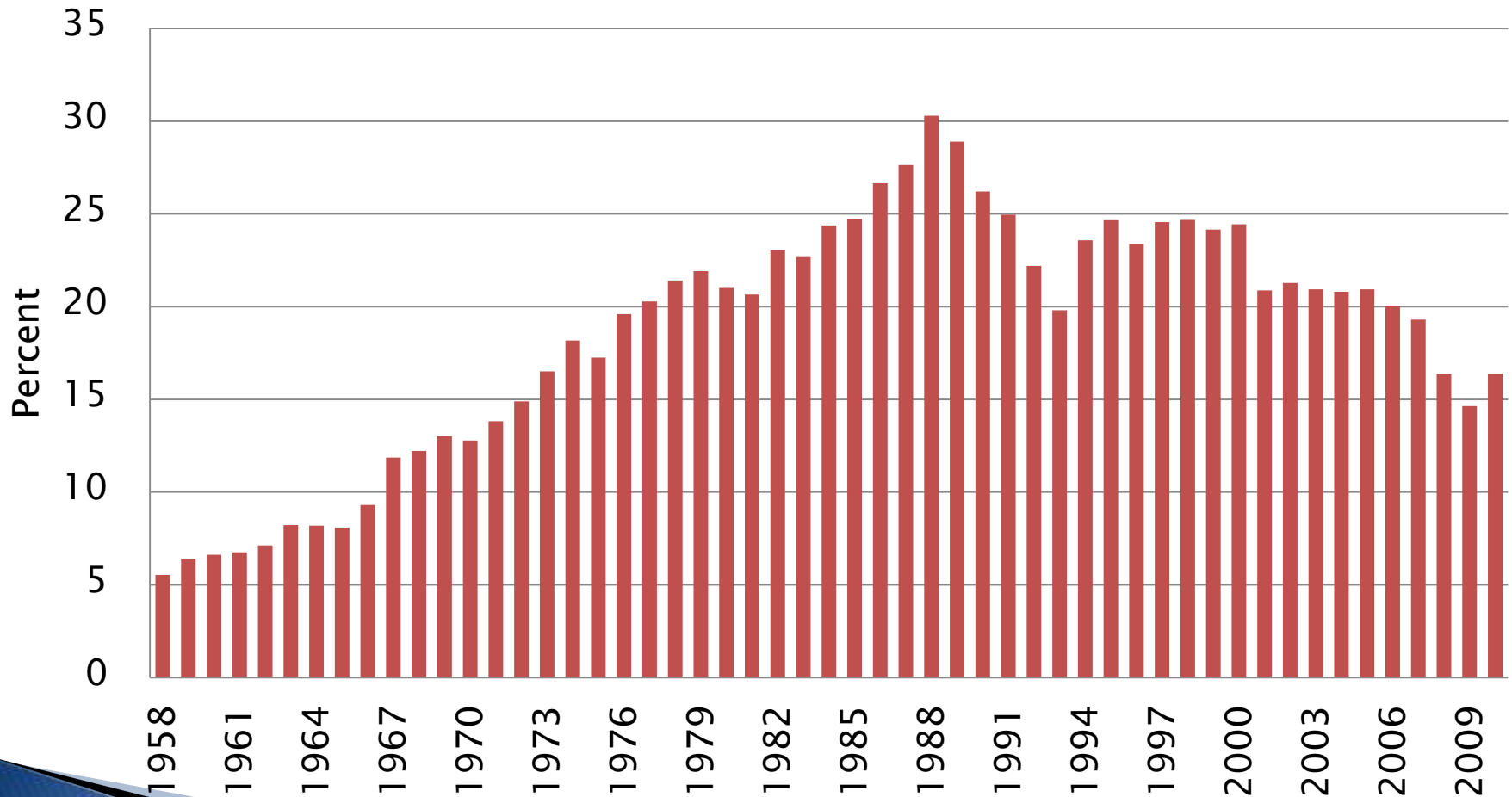
# Hotel Inventory Flat

**Hawaii Hotel Room Inventory: 1965 - 2010**  
**1965-1990: average annual growth = 7.1%; 1990-2010 = 0.26%**



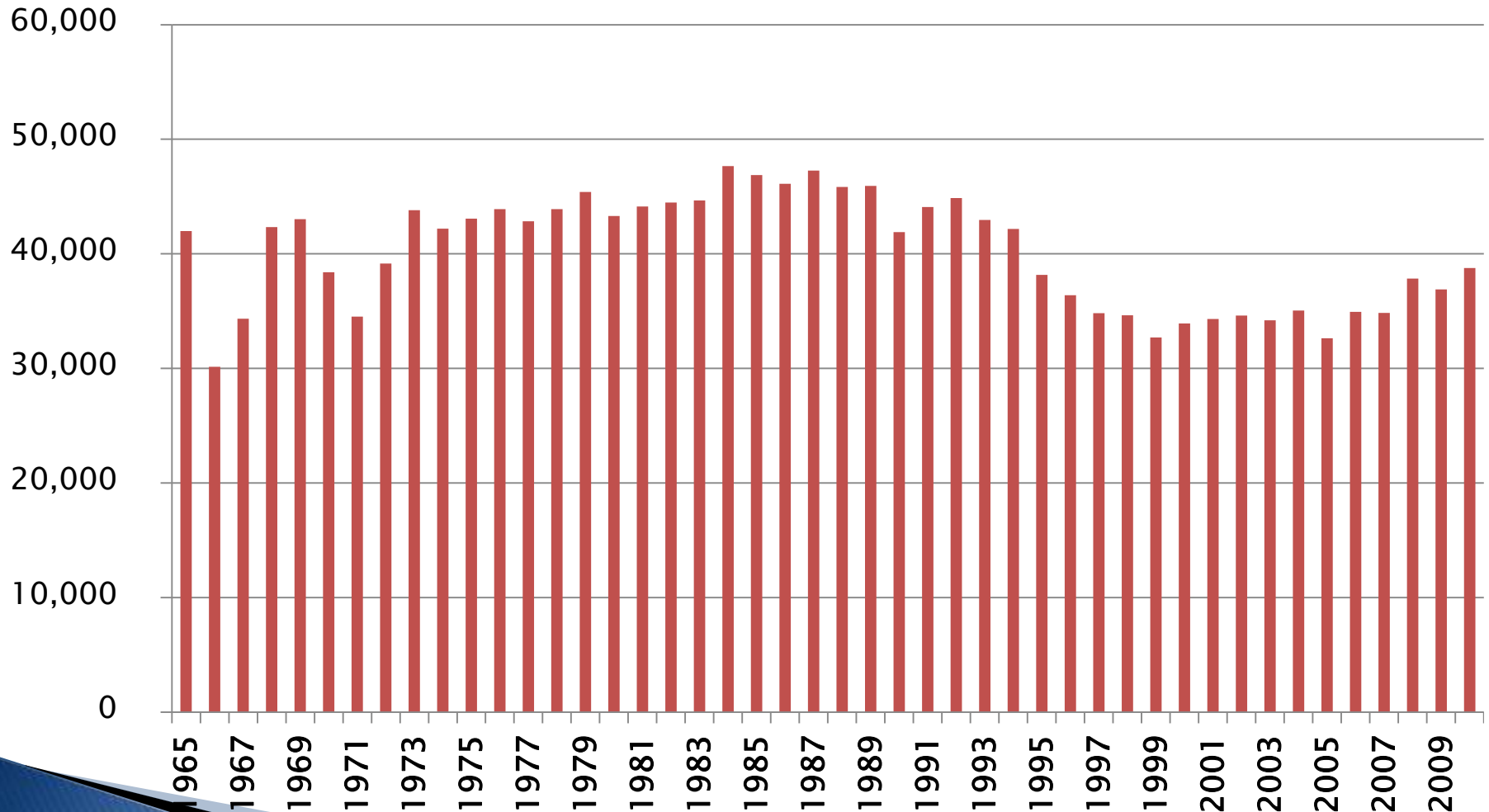
# Tourism Spending

*Visitor spending as a percent of GDP has been declining during the past 20 years*



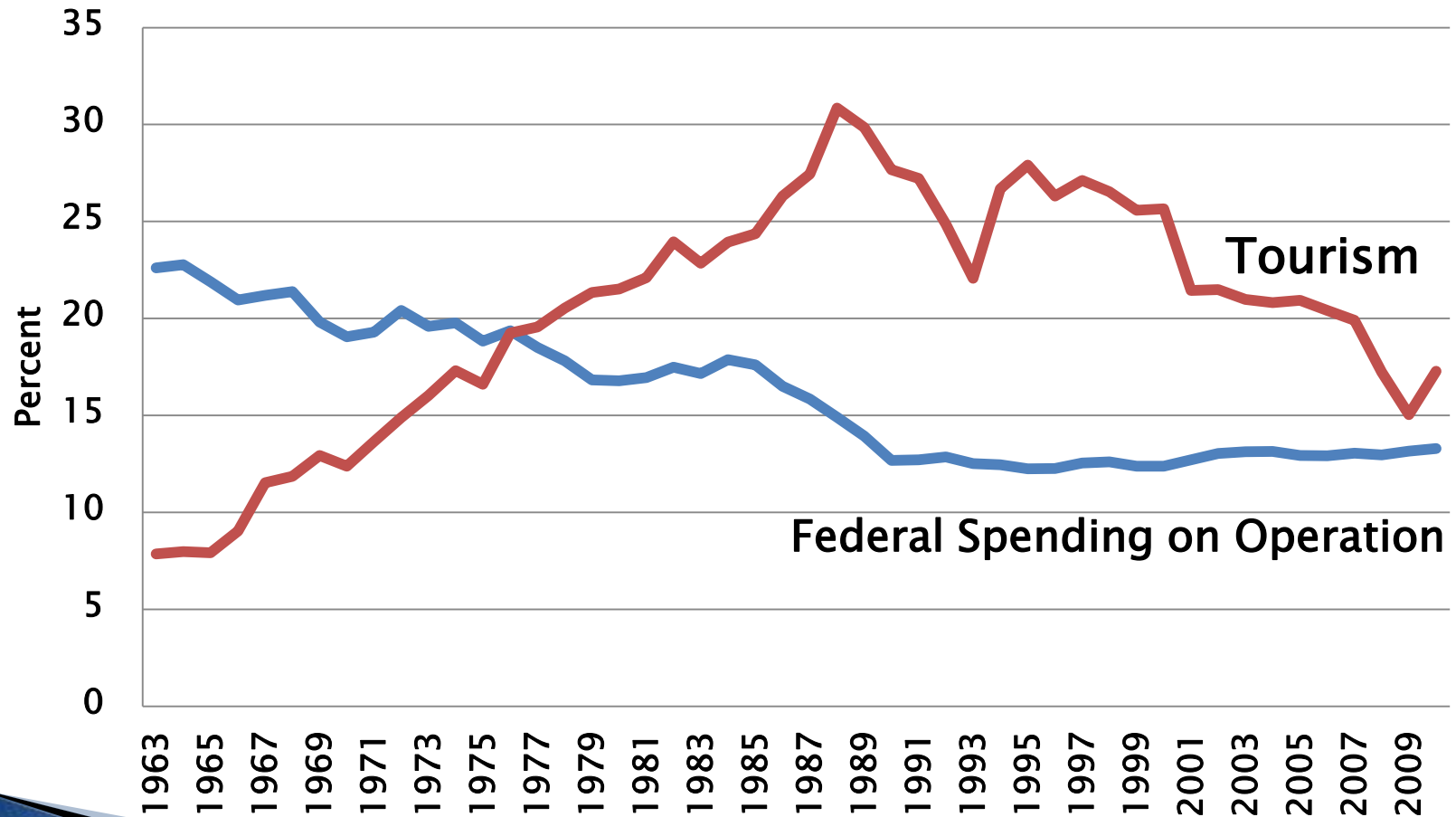
# Federal Military Personnel

*Number of military personnel stationed in Hawaii has not breached 40,000 members since 1994*



# Contribution of Tourism and Federal Government to Hawaii's Economy

(as % of total GDP)



# Recap

- ▶ Economy on the mend
- ▶ Significant headwinds
- ▶ Need to support tourism
  - Change the mindset from controlling growth to generating growth
- ▶ Can't tax and cut our way to prosperity
- ▶ Need a growth strategy

# A New Day in Hawaii

»» The Abercrombie  
Administration plan for  
sustainable growth



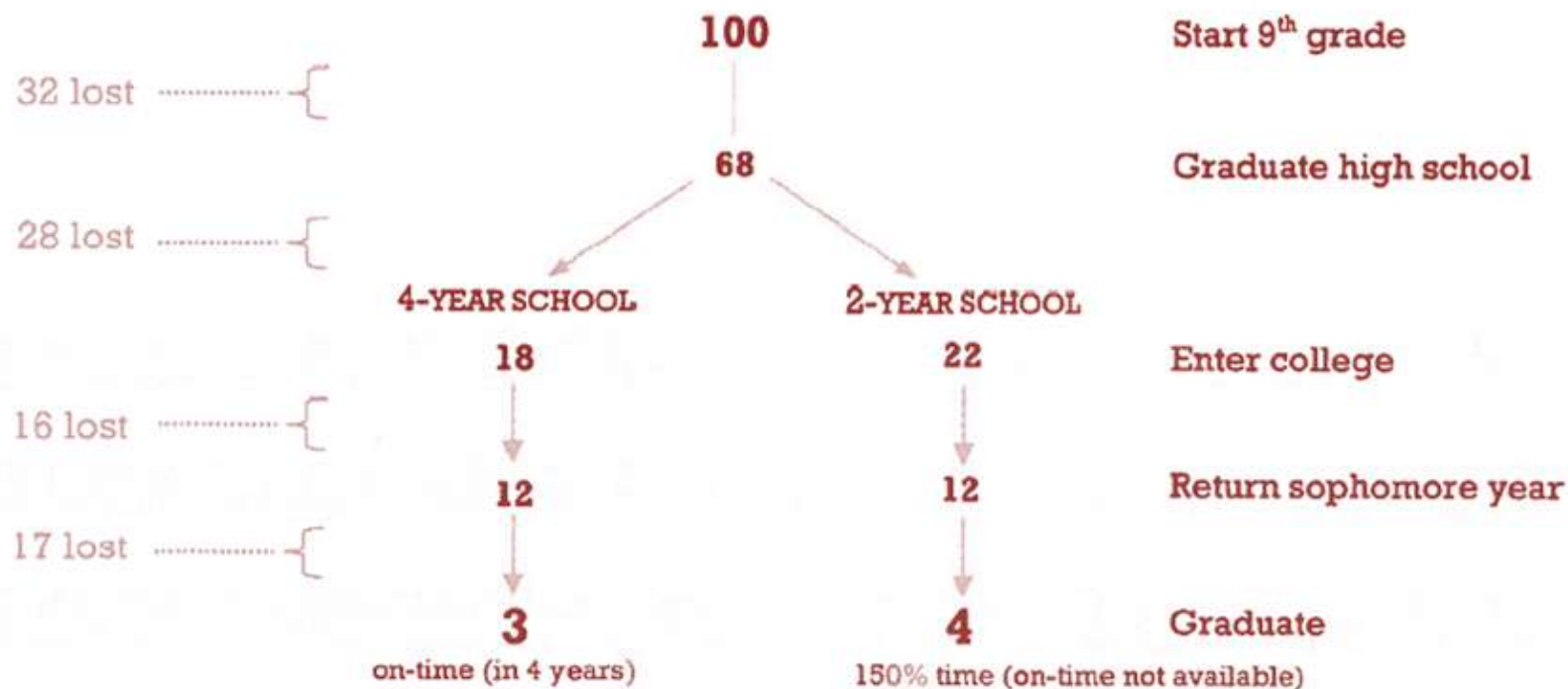
# New Day in Hawaii

## Foundation for Sustainable Growth

- ▶ Develop a Skilled Work Force
- ▶ Public Lands
- ▶ Build 21st Century Infrastructure
  - Energy
  - Broadband
- ▶ Support Emerging Growth “Industry Clusters”

# College Graduation Rate

**Too many students get lost along the way, hindering Hawaii's economic growth.<sup>3</sup>** (This chart models how success rates at each stage impact overall educational attainment. It is not based on longitudinal data, but is an attempt—using a collection of available data—to illustrate the challenges states face.)



Note: Sum of the numbers entering 4-year and 2-year schools may not match combined total due to rounding.

**COMPLETE COLLEGE AMERICA**

# DBEDT's Role

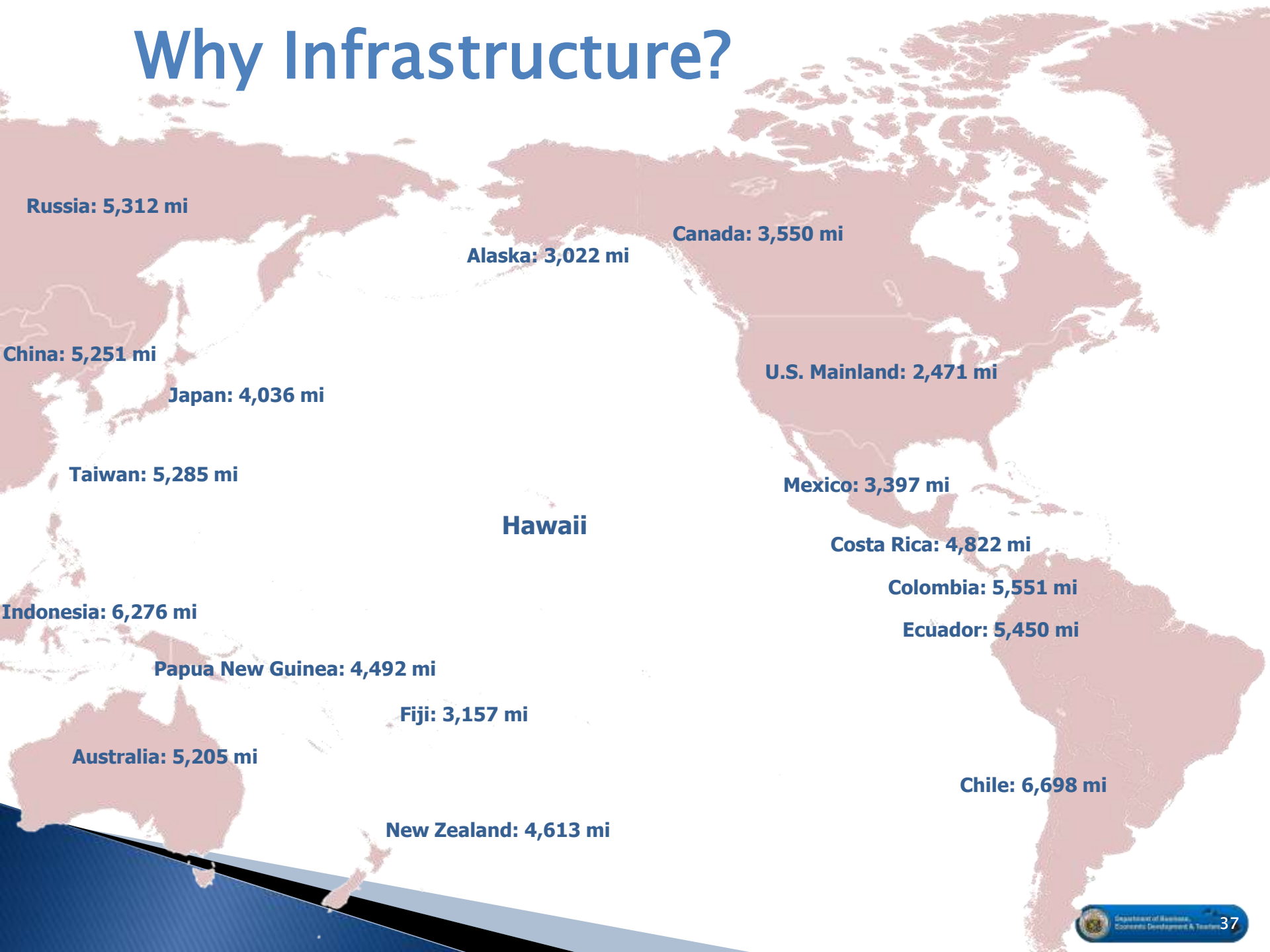
- ▶ Assist in making better use of Public Lands
- ▶ 21<sup>st</sup> Century Infrastructure
  - Energy – leading role
  - Broadband – co-lead with DCCA
- ▶ Emerging growth industries

# 21st Century Infrastructure

**Energy :**           70% Electrical Gen by 2030  
                          30% Energy Efficiency  
                          40% Renewable Energy  
                          70% Transportation by 2030

**Broadband :**   1 Gigabit by 2018

# Why Infrastructure?

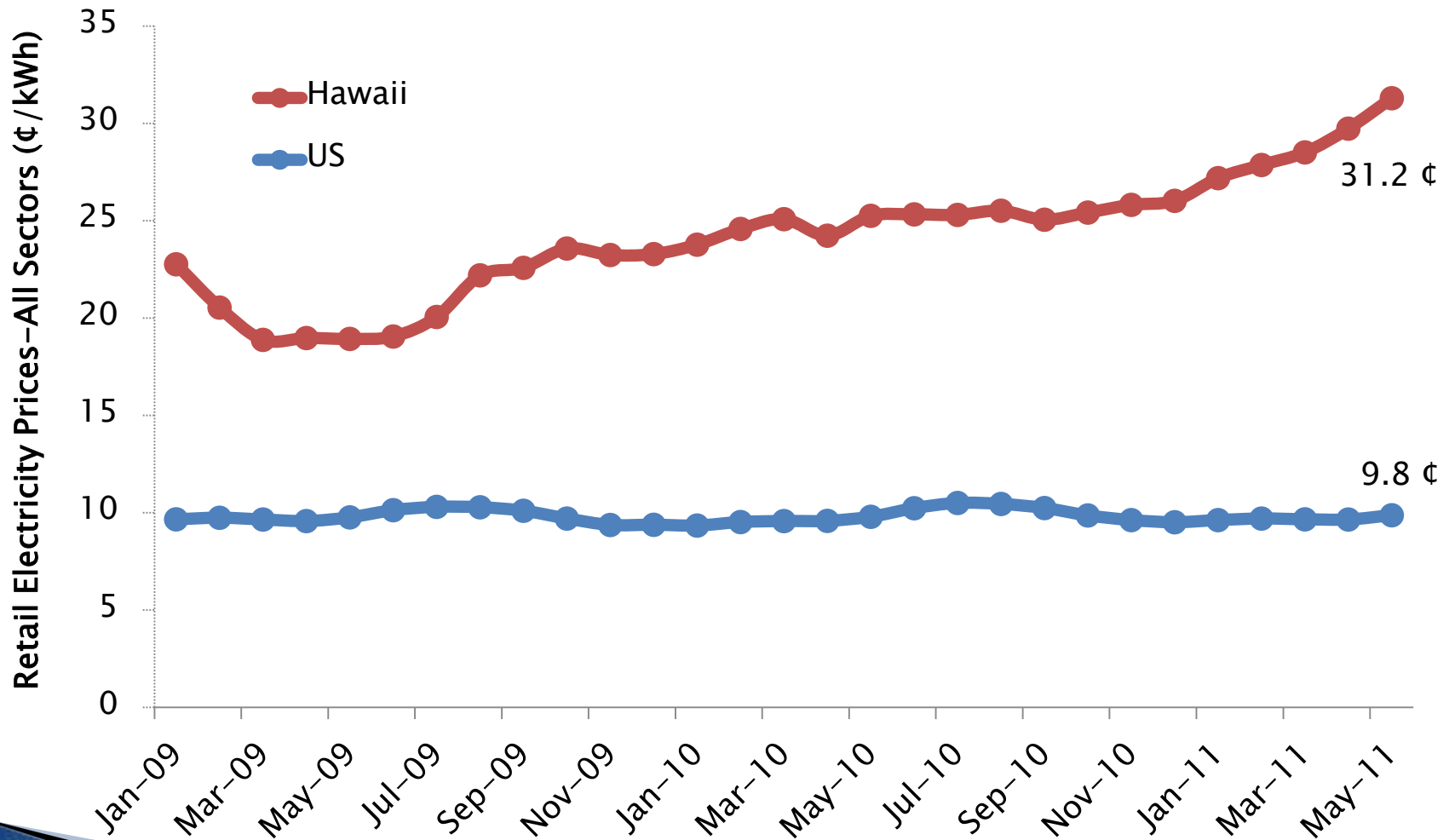


# Why Energy?

- ▶ **Energy Security** – Rising oil prices are a hidden tax that could derail the economy
- ▶ **Import substitution** – Money spent on renewables stays in Hawaii
- ▶ **Jobs** – Renewable energy development creates jobs

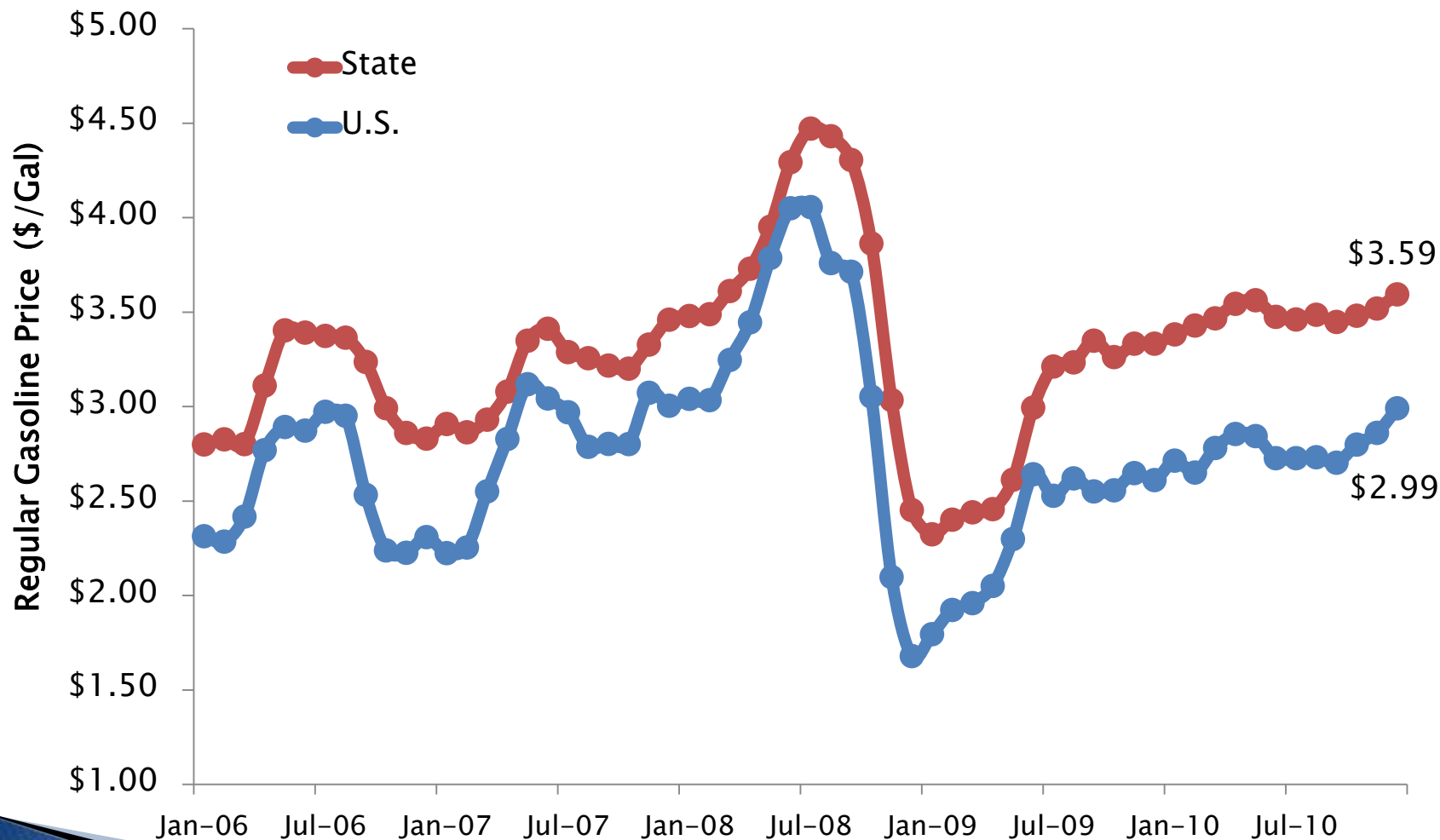
# US vs Hawaii Electricity Prices

*State electricity prices are currently approximately 20 cents higher than US average*



# High Gasoline Prices

*State regular gasoline prices are approximately 63 cents higher than US average*



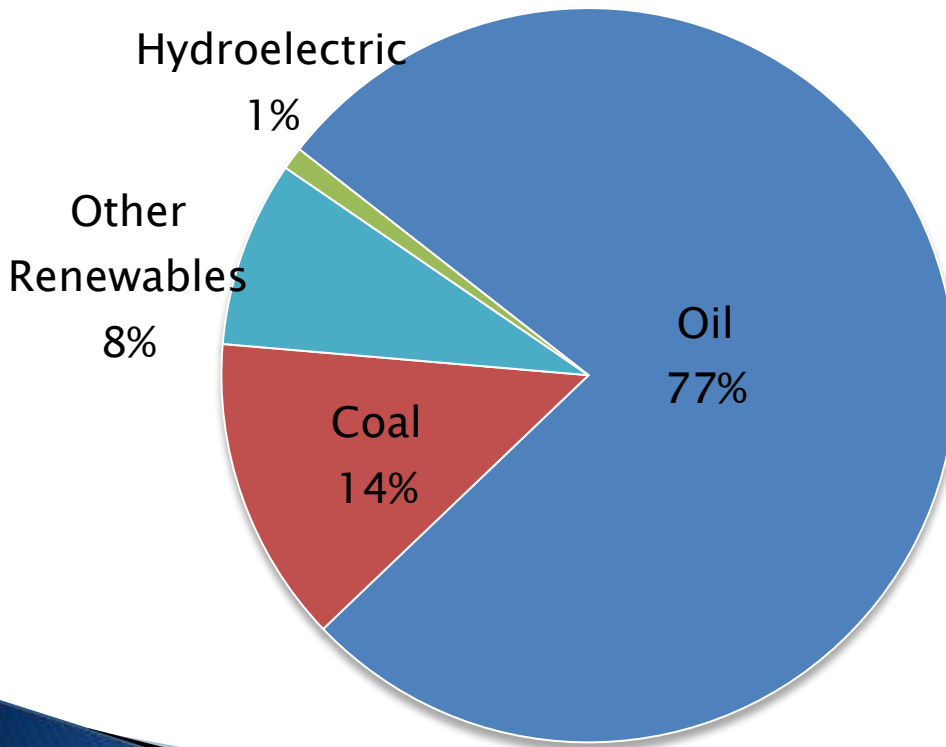


# Dependence on Imported Fossil Fuels

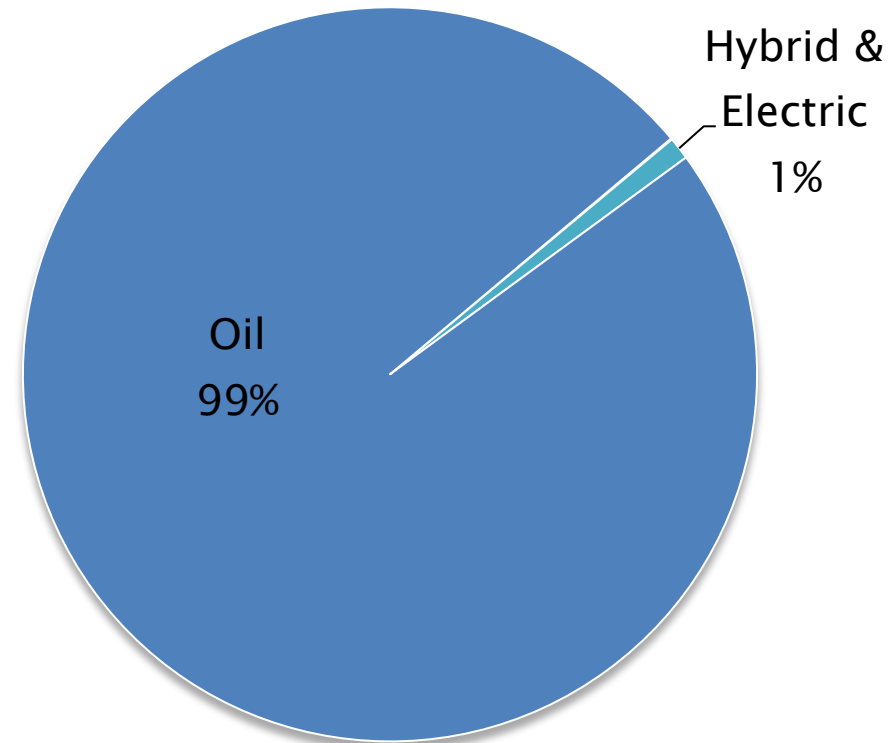
*Over 90% of Hawaii's electricity is generated from imported fossil fuels*

*Over 99% of Hawaii's transportation fuel is fossil based*

## Electric Generation



## Transportation



# Progress Compared to Other US States

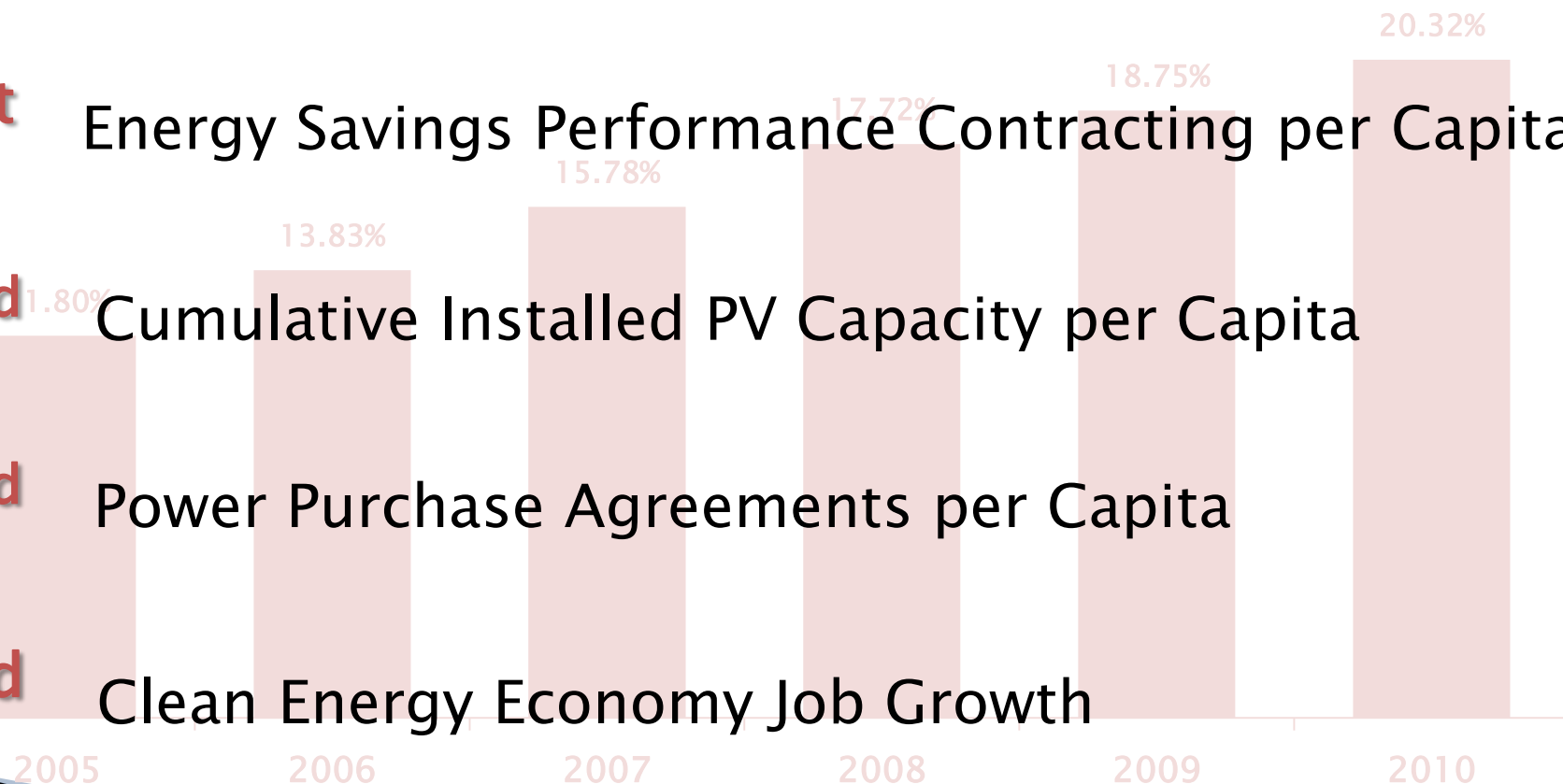
► **1<sup>st</sup>** Solar Water Heaters per Capita

► **1<sup>st</sup>** Energy Savings Performance Contracting per Capita

► **2<sup>nd</sup>** Cumulative Installed PV Capacity per Capita

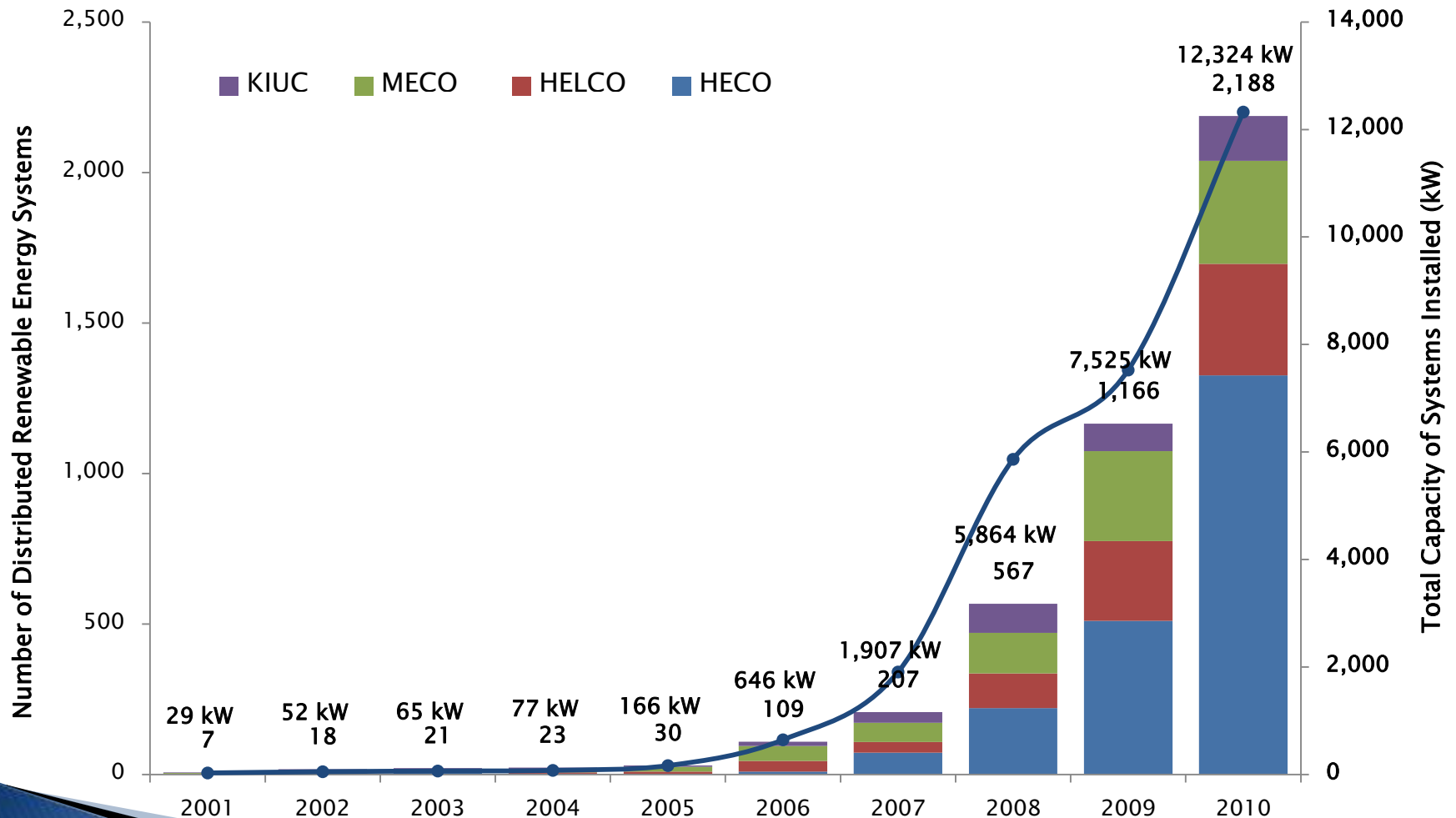
► **2<sup>nd</sup>** Power Purchase Agreements per Capita

► **3<sup>rd</sup>** Clean Energy Economy Job Growth



# Distributed Renewable Energy Systems

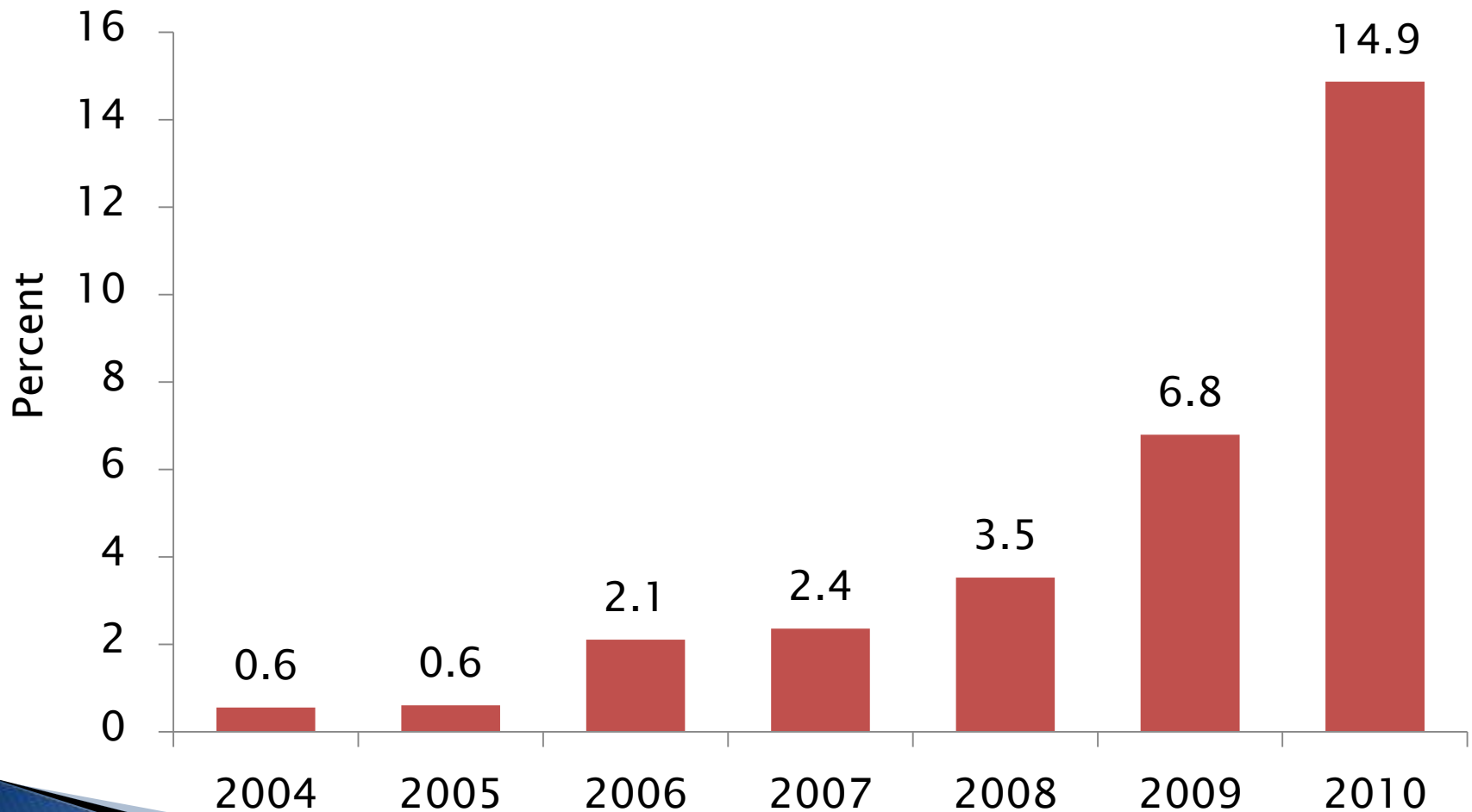
*As of 2010, 4,336 distributed renewable energy systems have been installed statewide, totaling 28.7 MW in capacity*



Source: *Net Energy Metering Status Reports, 2010* (Public Utilities Commission)

# Solar-Related Construction Expenditures

*Solar-related construction expenditures reached 15% in 2010*

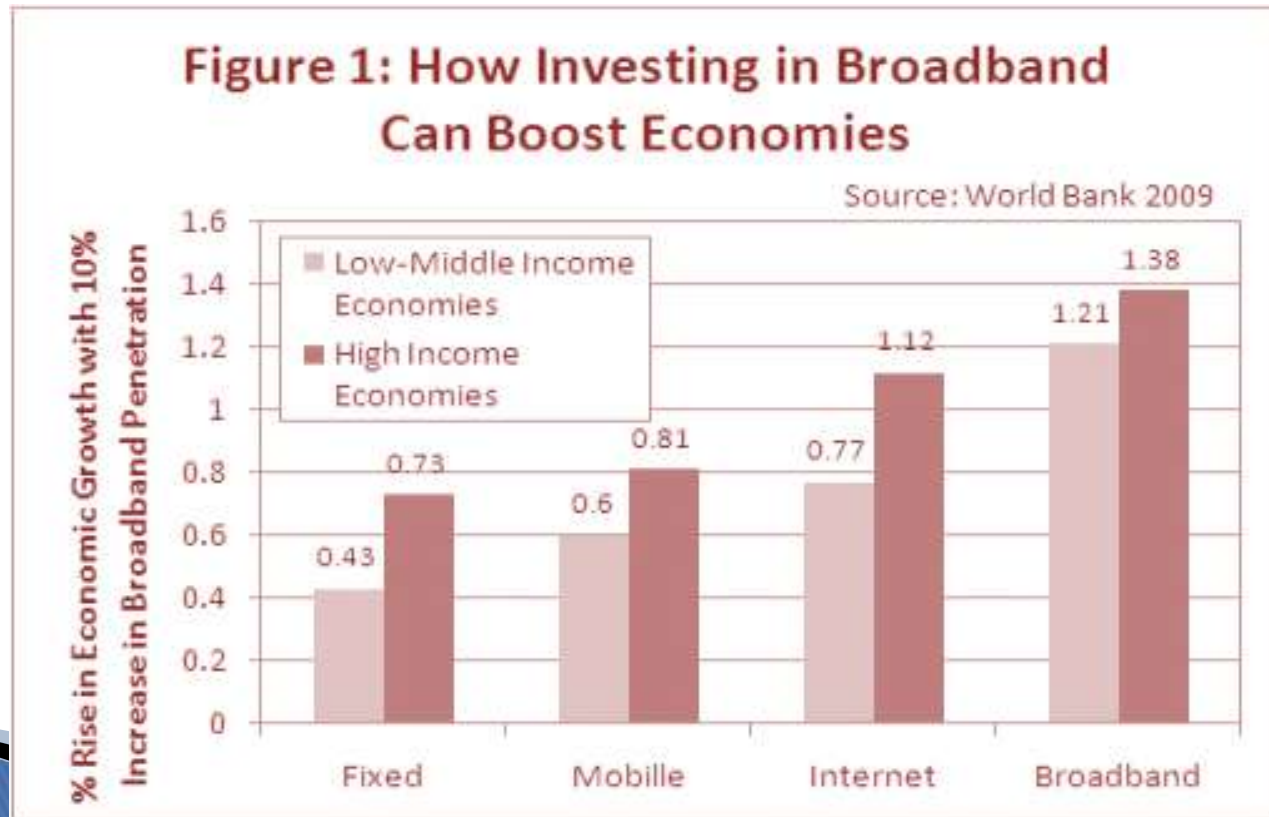


# Why Broadband?

- ▶ 21<sup>st</sup> century infrastructure
- ▶ Boosts economic activity
- ▶ Creates jobs
- ▶ Can you imagine doing business without it?

# Economic Benefits of Broadband

- ▶ Faster job growth and higher GDP growth rates
- ▶ Greater employee productivity
- ▶ Benefits greater in low–middle income brackets than in high income

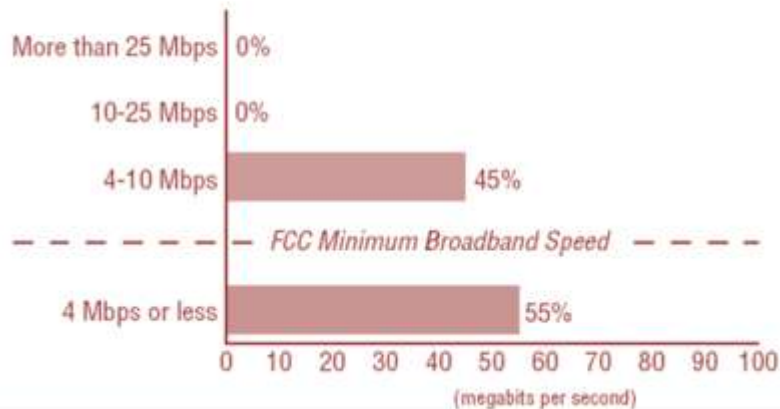


# Economic Benefits of Broadband

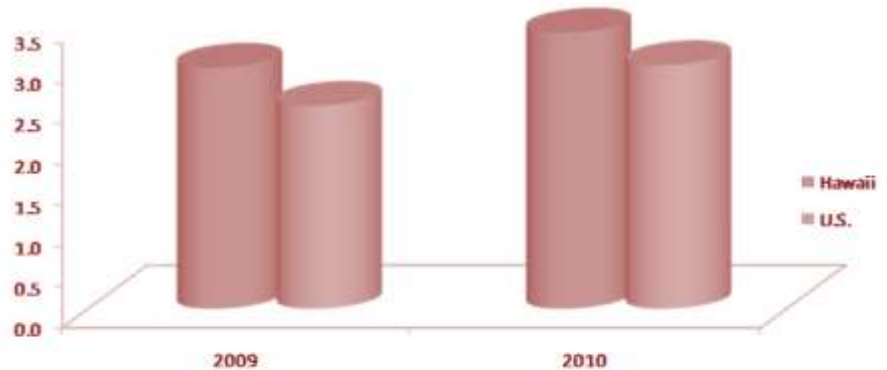
- ▶ \$5 billion investment in broadband creates 250,000 jobs nationally.
- ▶ 1% increase in broadband penetration, employment expands by nearly 300,000 jobs nationally.
- ▶ Jobs involved in the building and expansion of broadband networks pay 42% more than the average for manufacturing jobs.

# Less than half of Hawaii households meet Federal minimum standards

**Most Hawaii Residents Have Slow Speed**  
% of Hawaii Residents in Each Speed Tier



**Average Broadband Internet Download Speed**  
(megabits per second)



Source: Communications Workers of America, Speed Matters



# Hawaii Falling Behind

- ▶ U.S. fell from **11<sup>th</sup> to 17<sup>th</sup>**
- ▶ **Hawaii ranks 31<sup>st</sup>** in the nation in internet speed
- ▶ No new transpacific cables
- ▶ U.S. has ¼ the speed, for twice the price

# Implications

» Headwinds  
Solutions  
Call for action

# Call for Action

- ▶ Incremental change is not enough
- ▶ Private sector leadership critical – all successful economic transformations in the U.S. have been led by the private sector
- ▶ Need your help



# HHFDC, Kauai Projects

*HHFDC has constructed or rehabilitated 183 units of affordable rental and for sale projects on Kauai at a total investment of \$37 million*

## **2011 HHFDC Kauai Projects – Total 107 units (\$16.9 million)**

### **▶ Hale Ohana Apartments (Koloa)– 48 units**

- Hale Ohana Apartments is a 48–unit Rental located in Koloa, Kauai. The Acquisition/Rehab consists of 8–garden style one–story buildings with 18 one–bedroom and 30 two–bedroom units.

### **▶ Paanau Village Phase 2 – 50 units**

- Paanau Village Phase 2 is a 50–unit rental project. The new construction project consists of 5 two–story residential buildings with 10 units per building.

### **▶ KCHA Lot Development – 9 units**

- KCHA Lot Development/Foreclosure are 3 and 6–unit For–sale projects using Neighborhood Stabilization Program (NSP) Funds administered by HHFDC.

## **2008 HHFDC Kauai Projects – Total 76 units (\$20.2 million)**

### **▶ Kalepa Village Phase III – 40 units**

- Kalepa Village Phase III is a 40–unit Rental project. The new construction project consists of 16 one–bedroom and 24 two–bedroom units.

### **▶ Kekaha Plantation Elderly – 36 units**

- Kekaha Plantation Elderly is a 36–unit Senior rental project. The acquisition/rehab consists of 36 one–bedroom units.

# Energy Efficiency Projects, Kauai

*\$867,000 of Energy Office funds expended on Kauai since July of 2010*

- ▶ **Energy Office Homestead Energy Program (\$667,000 of \$725,000 expended)**
  - More than 85 Kauai Homesteaders have received energy audits, solar water heaters, and CFLs. Partnered with Department of Hawaiian Homelands and the Council for Native Hawaiian Advancement (CNHA)
  
- ▶ **Energy Office State and Local Government and Non-Profit Rebate Program (\$200,000 for KIUC)**
  - Program focuses on augmenting existing rebates offered by KIUC. Projects funded under the ARRA Block Grant include indoor lighting, motors, office equipment, outdoor lighting, refrigeration, space cooling, and ventilation.
  
- ▶ **Department of Education PV Installations at 15 Kauai Schools**
  - PVs will be installed at no cost to the schools and electricity will be sold at 28 cents per kWh.
  - Ele'ele Elementary; Hanalei Elementary; Chiefess Kamakahelei Middle; Kalaheo Elementary; Kapa'a Elementary; Kapa'a High; Kapa'a Middle; Kaua'i High; Kekaha Elementary; Kilauea Elementary; King Kaumuali'i Elementary; Koloa Elementary; Waimea Canyon Elementary; Waimea High; and Wilcox Elementary.

# Potential Renewable Energy Projects, Kauai

## Solar

- ▶ 10–15 MW solar thermal project (Kekaha/Waimea)
- ▶ 6 MW PV project (Eleele)
- ▶ 5 MW PV projects (Kapaa, Koloa and Kilauea)
- ▶ 3 MW PV project (Koloa)

## Biomass

- ▶ 6.4 MW biomass project (Koloa)
- ▶ 1.6 MW landfill gas project (PMRF)
- ▶ 20 MW biomass project is being studied

## Hydropower

- ▶ 8.0 MW hydro project (Kekaha/Kokee Ditch)
- ▶ 4–10 MW hydro project (Olokele Ditch)
- ▶ 4 MW hydro project (Upper Wainiha)
- ▶ 6.6 MW hydro project (Wailua Falls)

# Creative Industries Division, Kauai Highlights

## Motion Pictures

- ▶ Pirates of the Caribbean: On Stranger Tides
- ▶ Soul Surfer
- ▶ Just Go With It
- ▶ The Descendants

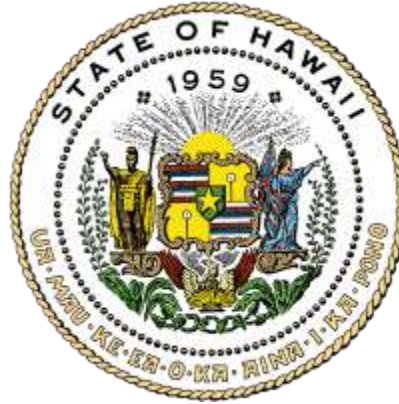
## Music

- ▶ Kauai Music Festival
  - Contributed a total of \$19,000 in the past 4 years for workshops to help budding musicians

# Enterprise Zones, Kauai Activities

- ▶ 12 Kauai companies are enrolled in the EZ program
- ▶ **“Bringing Government to the Communities” Workshop**
  - KEDB and the Kauai Office of Economic Development (George Costa, Director) partnered with DBEDT in organizing and publicizing the June workshop.





# Mahalo

Hawaii State Department of Business  
Economic Development & Tourism  
[www.hawaii.gov/dbedt](http://www.hawaii.gov/dbedt)